

JPRS-UEA-86-022

7 JULY 1986

USSR Report

ECONOMIC AFFAIRS



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The following selections from Soviet media on the aftermath of the Chernobyl Nuclear Power Plant accident and the mobilization of labor and technology in the clean-up effort will be published in the series USSR REPORT: POLITICAL AND SOCIOLOGICAL AFFAIRS under the subtitle AFTERMATH OF CHERNOBYL NUCLEAR POWER PLANT ACCIDENT. This is a representative list of the items selected for that report.

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DETAILED ACCOUNT OF CHERNOBYL AES FIRE FIGHT
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DETAILED DESCRIPTION OF CHERNOBYL TOWN, LIFE
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VOLUNTEERS BUILD DIRECT ROAD TO CRIPPLED CHERNOBYL PLANT
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ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

SOCIOECONOMIC PROGRESS PROGRAM HIGHLIGHTED

Moscow PLANOVoye KHOZYAYSTVO in Russian No 3, Mar 86 pp 3-8

[Article under rubric "Implementing the Decisions of the 27th CPSU Congress":
"Program for Economic and Social Progress"]

[Text] An outstanding event in the life of the Communist Party and the entire Soviet nation was the 27th CPSU Congress, which made a major contribution to the theory and practice of communist construction and provided a new impetus for the development of Soviet society and the Soviet state. The congress considered and approved theoretical and political documents that are most important for the fates of our country -- the new edition of the CPSU Program, the amendments to the CPSU Rules, and the Basic Directions for the Economic and Social Development of the USSR in 1986-1990 and the Period Until the Year 2000.

Constituting the pivot and determining logic of all the congress materials is the concept of the acceleration of the public, economic, and social development of our country in the forthcoming 15-year period. In the Basic Directions the program of economic and social progress of society is expounded in a concentrated form and principles pertaining to strategy and economic policy have been translated into the language of specific economic goals and the ways to achieve them. This carries out a very important principle in elaborating the program of party documents which was formulated by V. I. Lenin: "We value communism only when it is economically substantiated" (Footnote 1) (V. I. Lenin, "Poln. sobr. soch." [Complete Collected Works], Vol 38, p 179).

In the course of the work on the draft of the Basic Directions it was necessary to find approaches to the resolution of fundamentally new tasks. Their innovative nature and scope are influenced by the fact that in the mid-1990's the Soviet economy had approached that level in the formation of its production potential and its economic system when profound qualitative and structural changes in the productive forces, and the corresponding improvement in production relations, not only had matured, but had also become inevitable.

Lying at the basis of those changes are the constantly growing social needs of Soviet man, and of society as a whole, as well as the potential opportunities of the modern stage of the scientific-technical revolution, which stage contains the beginning of a technological turning point in production, the

heavy "load" of economic problems that has built up over the past three five-year periods as well as the complication of the natural reproduction conditions which is being felt in the area of fuel production and the buildup of primary natural raw materials.

The reproduction nature of the influence exerted by the factors that expand the limits of economic growth (social needs and scientific-technical progress) and that relatively narrow them (the difficulties that have developed but have not been eliminated promptly, and absolute increases in fuel and raw-material production which are lower than during the past period) presents the national economy and the planning system with those long-term goals which in the past were ready for normative measures, but which have become necessary goals for the present and the future.

We have in mind primarily the intensification of the economy, an intensification that has no alternatives. By the nature of its effect upon the economy, intensification has defined the basic economic content of our party's economic strategy, and of the Basic Directions -- the qualitative transformation of the productive forces in order to assure that they embody the achievements of the modern stage of the scientific-technical revolution and guarantee that the national economy will assume a trajectory in the increase in labor productivity that will lead to its higher goals. Therefore it will be necessary immediately and simultaneously to proceed at an accelerated rate along many directions of economic development. That is the requirement of real economic progress and a condition for the resolution of the social and political tasks in the party's program.

The acceleration of our country's social and economic development includes not simply the increase in the overall growth rates of the national economy. In essence, we are dealing with a new quality of growth, with its new criteria that are advanced by economic life. Acceleration is primarily the energetic and effective resolution of the economic problems that have developed. Acceleration is the improvement of the quality and consumer properties of the output, the more efficient supplementing of the rates of economic development, and the outstripping increase in the productivity of the equipment as compared with its cost. Acceleration is the conversion of the economy, effectiveness, and productivity of labor into a decisive source for the growth and expansion of production. Acceleration is the carrying out of an active social policy, the consistent affirmation of the principle of socialist justice, and the improvement of social relations. Acceleration is the taking of a more responsible attitude toward labor, toward one's duties; it is initiative, enterprise, and a justified economic risk. The gauges of acceleration are varied, and the growth rates are an important, but not the only, characteristic of this complicated and multifaceted process.

Thus, in the broad sense of the word, acceleration is the structural, scientific-technical, and economic-organizational reorganization of the economy in conformity with the objective requirements of fundamental shifts in the productive forces; and the expansion and deepening of the process of intensification in all links and branches of the national economy for purposes of the coordinated resolution of the entire set of social tasks of Soviet society.

The differentiating peculiarity of the Basic Directions consists in that the course aimed at acceleration, intensification, and renovation in them has been rendered in a concrete form in a system of economic indicators. They include the indicators for the satisfaction of the additional needs for material resources by means of economizing them (75-80 percent); the share of scientific-technical progress in the increase in the productivity of socialized labor (two-thirds); the reduction of the energy-intensity and material-intensity of national income (respectively by a factor of 1.4 and 2 during the 15-year period); the expansion in the 12th Five-Year Plan by a factor of 1.5-2 in the application of progressive base technologies; the increase in the overall volume of output of machine building in the share of technology being produced for the first time to at least 13 percent; the reduction to one-fourth to one-third the periods of time required for the development and assimilation of new technology; and a number of others. The emphasis upon the qualitative aspects of reproduction has been made in all sections of the Basic Directions.

While emphasizing the importance of the qualitative elements of future economic development, it would be incorrect to oppose them to the quantitative ones, feeling that the latter have lost or will soon lose their importance. It is completely obvious that in the 12th Five-Year Plan and during the period until the year 2000 it will be necessary to produce more grain and meat, more plastics and paper, more cotton fabrics and good-quality leather footwear. However, something else is also obvious: it is impossible to keep increasing the production, say, of energy and raw-material resources. And the question here lies not in the threat of the physical depletion of mineral resources and the irreplaceability of individual reserves, but primarily in the achievement of that scope of production where the further forced buildup becomes economically inefficient, inasmuch as it will be necessary for society to bear disproportionately high additional expenditures for those high increases.

The chief content of the program for economic progress, as reflected in the Basic Directions, lies in the changeover to the principally intensive type of development of the economy and to the guaranteeing on that basis of a fundamental increase in the productivity of social labor, both live and embodied. The most general paths and means for achieving these economic goals are:

-- the effective use of the accumulated production potential; the complete increase in the effectiveness and balance in the process of reproduction in the national economy; the practical guaranteeing of the normal flow of the country's economic life on the basis of the intensification of planning, technological, and labor discipline; the achievement of the complete conformity between the internal economic capabilities and the needs in the spheres of capital construction, the public's income and consumption, and the foreign-economic ties; and the elimination of ineffective expenditures;

-- the bringing of the branches and links of the economy up to the forefront of science, technology, and the organization of labor; the fundamental technological transformation of the production apparatus by means of the carrying out of the new technical remodeling of the national economy, the

broad dissemination of resource-saving technological schemes in the form of technically improved and economically effective systems of machines and production complexes; the increase in the technical efficiency of labor and production on the basis of complete mechanization and economically justified automation, and the widescale introduction into the national economy of scientific-technical progress in its most advanced forms -- the application of electronic means, effective robots, and the latest achievements of chemistry and biology;

-- the activizing of social policy; the increase in the role of the human factor in directing the intensification of their influence upon the effectiveness of production, by means of the more efficient structure of the employment rate, the development of the public's labor participation, and the consistent implementation of the basic principle of socialism -- payment based on the quantity and quality of labor; the effective use of the educational and proficiency potential of the labor resources on the basis of the expansion of the scope of the retraining and the raising of the person's proficiency level; the creation of economic and organizational conditions for the steady outstripping of the increase in labor productivity as compared with the increase in wages;

-- the increase in the rate of results and the effectiveness of the entire system of improvement of administration; the coordinated functioning of all the links in the state apparatus, centralized planning, and branch and territorial economic management on the basis of the increase in the on-the-job and occupational training of administrative cadres and the elimination of formalism and lack of personal responsibility during the making of economic decisions; the development of flexibility in the planning system for distribution of resources by means of the improvement of price determination, credit-and-finance relations, and contractual pledges; the increase in the executive discipline and responsibility of the low-level links in the administration and organization of production by means of the expansion of rights and democratization in the making of economic decisions by the enterprises;

-- the intensification of the positions of the Soviet economy in the worldwide international distribution of labor by means of the reduction of the percentage of food supplies, agricultural raw materials, and other materials in the structure of import, and the expansion of the share of the processing branches in the structure of export; the effective use of the capabilities of socialist economic integration as a factor for the mutual acceleration of the rise in the economy in the countries of world socialism.

A fundamental question in the new technical remodeling of the national economy is the rapid renovation of the production apparatus on the basis of advanced technology and the improvement of technological processes. It is especially necessary to note the economic role of replacing material-intensive, energy-intensive, and labor-intensive technological schemes and machinery systems by resource-saving base technologies. "Economic eras," K. Marx wrote, "are differentiated not by what is produced, but by how it is produced, by what means of labor" (Footnote 2) (K. Marks [Marx], F. Engels, "Soch." [Works], Vol 23, p 191). Thus, to follow K. Marx's idea, the technological scheme of

social production is the chief technical-economic form of realizing the progress of knowledge, the method of putting practical experience into substantive form, and the material basis for the technical remodeling of the national economy.

The Basic Directions assign the task of expanding in the 12th Five-Year Plan by a factor of 1.5-2 the application of progressive base technological schemes, of guaranteeing the broad introduction into the national economy of fundamentally new technological schemes that make it possible greatly to increase labor productivity, to increase the effectiveness of the use of resources, and to reduce the material-intensity and energy-intensity of production. The determining role in organizing this process must be played by the interbranch scientific-technical complexes that are oriented toward the carrying out of the entire cycle of operations involving in the creation and assimilation of the production of highly effective types of new-generation technology, technological schemes, and materials. There will be an expansion of the sphere of application of industrial and intensive technological schemes in agriculture, where methods of biotechnology and gene engineering will begun to be used broadly.

The weapons of labor and various types of machines and equipment that form the substantive basis of a definite technological scheme are simultaneously the assets part of fixed capital. Economically this means that the improvement of the technological scheme of production is directly linked with the expansion and renovation of fixed assets. The more rapidly the technological scheme develops under the effect of objective economic and social conditions and the faster the speed of scientific-technical progress, the more intensively it is necessary to carry out: the process of the technological re-equipping of the national economy and the withdrawal of the assets part of fixed capital; and the buildup of technological machine-building.

This logical and real interrelationship among the improvement of the technological scheme, the reproduction of the fixed production assets, the development of machine-building, and the change in the structure of capital investments in favor of technical re-equipping received its thorough economic elaboration in the Basic Directions. First, in the 12th Five-Year Plan it is planned at least to double, as compared with the previous five-year plan, the volumes of withdrawal of obsolete fixed production assets. Secondly, in each branch it is planned to implement comprehensive programs for technical development and renovation of production on the basis of plans for technical re-equipping and remodeling. Thirdly, it is planned to guarantee a rise in the technical level and quality of machine-building output, with the simultaneous acceleration of its growth rates. Fourthly, it is planned to increase the share of capital investments for remodeling and technical re-equipping as part of production construction to 50 percent. This will result in the achievement of the necessary coordination of practical activity in the area of improvement of technological schemes, planning and administration, development of machine-building, the reproduction of fixed assets, and capital investments.

The priority development of resource-saving forms of scientific-technical progress, as planned in the Basic Directions, is closely linked with the

carrying out of an active structural policy. The essence of the task consists in the reorganization of the structure of production, interbranch and intrabrand ties, and the increased efficiency of consumption on the basis of the corresponding distribution of capital investments and labor and fuel-and-raw-material resources. It has been called upon to guarantee, within the confines of the general balancing of the development of the national economy, the preferential development of the branches, types of production entities, technological processes, consumer commodities, and services that carry the most effective scientific-technical achievements that promote the greatest economizing of production resources and exert a positive influence upon consumption, encouraging the social needs in the creativity and spiritual, cultural, and physical improvement of the individual.

The goals of the structural policy can be realized by means of the appropriate investment policy, the improvement of the proportions in the distribution of capital investments in favor of the branches and production entities that are the material carriers of scientific-technical progress.

In the Basic Directions, the following are isolated as the first-priority directions in the structural policy:

- the expansion of the technical, organizational, and economic capabilities of machine-building, the initial factor of which capabilities must be the fundamental remodeling and outstripping development of machine-tool-building, the production of computer technology, instrument-building, and the electrical-engineering and electronic industry;

- the improvement of the structure and quality of structural materials and technical-economic and durability features, and the expansion of the products list for those materials. A fundamentally new factor in the technical policy in the development of ferrous metallurgy is the buildup of the production of ready rolled metal without an increase in pig iron production and with a substantial reduction in coke expenditure;

- the reorganization of the structure of the country's fuel-and-energy balance sheet on the basis of a purposeful energy-saving policy, the sharp reduction in the use of petroleum products as fuel, and the rise in the level of electrification of the national economy, which will make it possible to increase the share of gas and nuclear energy in covering the energy needs;

- the coordination of all links in the agroindustrial complex, the bringing out all of them up to a high technical, organizational, and economic level with the purpose of uniting their joint efforts in order to obtain high final results in conformity with the USSR Food Program;

- the formation of a developed consumer sector that includes the production of consumer goods and the services sphere, by means of an increase in the contribution made by absolutely all the branches, republics, and rayons in the

country to the resolution of the varied tasks that are linked with covering the public's constantly growing effective demand.

The economic progress of socialist society in the final analysis is characterized by the gauge of the outstripping of the bulk of consumer value, to total social utility accumulated in it, as compared with the gross expenditures of live and embodied labor. Characterizing the results of social production, K. Marx always clearly separated the formation of gross value and the gross consumer values, repeatedly emphasized that with the dominance of socialist ownership the production of consumer value as a means of satisfying social needs becomes an objective goal. Therefore this great importance belongs to the quality of consumer commodities and the technical level of producer goods. At the present-day level of development of the Soviet economy, it is specifically by means of the improvement of quality, the raising of the technical level, and the expansion of the variety and number of different types in the output being produced that the growing final needs of the public, the state, and the national economy are satisfied.

At the present time more favorable objective economic prerequisites for resolving the problems of quality are forming. First, it is now a thing of the past for trade to operate literally "off the truck" and for the public's effective demand to be all-consuming. The consumer has become more selective and more outspoken in his demands, expressing them not only emotionally, but also economically -- by "voting with the ruble." Secondly, the course aimed at technical re-equipping, at the renovation of the assets part of fixed capital, with the simultaneous expansion of the capabilities of the enterprises in financing the expenditures for the purchase of equipment and in carrying out the principle of repayment of investments forces them to be more careful in selecting technology and equipment, and forces them to make higher demands on their technical level, quality, reliability, and operating characteristics.

The Basic Directions assign the task, during the five-year period, of increasing the share of manufactured output in the highest quality category by a factor of 1.9-2.1, and of increasing the reliability of the technology and its total operating period; in the 12th Five Year Plan it is planned to complete for the most part the introduction of comprehensive system of quality control. It is planned to accelerate the reconsideration of the standards and specifications for output, orienting them toward the highest worldwide achievements. With regard to consumer goods, the emphasis has been made on the expansion of the variety, the artistic and esthetic design of manufactured goods, and the accelerated output of complicated household appliances.

In a definite sense, intensification, acceleration, renovation, the technological process, structural shifts, quality of output and of work, responsibility, enterprise, bold and nonstandard planning and economic decisions are synonyms of economic progress, its chief components, links in a single chain. The most important thing now is to assume that they are supplemented by the everyday, at times difficult, specific work performed by each Soviet citizen. The party issues the summons to us to do that, and herein lies the pledge of the successful practical implementation of the program that has been planned.

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ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

SOVIET ECONOMIC POTENTIAL ASSESSED

Moscow PLANOVYE KHOZYAYSTVO in Russian No 3, Mar 86 pp 29-35

[Article by G. Pavlov, deputy department chief, USSR Gosplan, and L. Pchelkina, candidate of economic sciences: "The Country's Economic Potential"]

[Text] The acceleration of our country's social and economic development and the attainment on that basis of a new qualitative condition in Soviet society are one of the chief goals of the party which were adopted by the 27th CPSU Congress.

The resolution of this task requires the concentration of the efforts of the Soviet nation in carrying out a major turn toward the intensification of production, and in guaranteeing the changeover to an economy with the highest degree of organization and effectiveness. Therefore, in order to plan the national economy there has been an objective increase in the significance of developing the scientifically substantiated ways and means to resolve the problem that has been posed, which includes the methodological improvement of economic work and questions of achieving a balance in social production, which is a very important condition for increasing its effectiveness.

At the national-economic level of planning activity, one of the most important elements and conditions that guarantee the intensification of the proportionality of the development of the national economy as a single whole, and its conversion into the integral cooperation of labor, is the efficient use of the country's created economic potential, its qualitative and quantitative definiteness.

The vast scope and the multileveled nature of the tasks of economic and social construction in the country during the forthcoming period objectively influence the need to carry out a thorough analysis of the basic natural laws underlying socialist expanded reproduction with a consideration of the present-day state of the economy, and the search for new directions for researching and revealing the peculiarities of that process.

One of the most critical tasks is the most thorough study of the content and the reproduction role of the country's economic potential, the aggregate capability of the branches of the national economy to increase production and improve the quality of industrial and agricultural output, to carry out

capital construction and to haul freight shipments, to guarantee the bringing of the economy to the front lines in science and technology, and to satisfy more completely the country's needs for necessary articles and the public's growing demand for various commodities and services.

The practice of economic construction persistently requires a broader, more methodologically substantiated treatment of the concept of the economic potential as an economic category, the further study of the internal ties among the elements constituting it, and their qualitative and quantitative expression.

At the present time in Soviet economic literature the study of the economic potential does not yet correspond to the level of study of the other problems of the reproduction process. This pertains chiefly to the development of the methods for evaluating and using, in the practice of planning and administration, the elements of the economic potential -- the national wealth, fixed production and nonproduction assets, production capacities, natural and labor resources, etc.

In research on social reproduction, K. Marx, F. Engels, and V. I. Lenin in each specific instance considered this process from a strictly defined angle of vision. By using their methodological means, it is possible to represent the economic potential as a multifaceted and complicated political-economic category that has been constructed on the unity of its qualitative and quantitative characteristics, the substantive structure and social form of movement under the specific historic conditions and the immediate interrelationship with other categories of social reproduction.

The socioeconomic forms that characterize the economic potential are influenced by the economic content of ownership, which, unlike its legal depiction, expresses the deeply underlying relations in society with respect to the appropriation and use of all the material factors of production and consumption. Social ownership of the producer goods reflects the essential socioeconomic conditions of the functioning of our country's potential, which largely determine its economic effectiveness and the social-class directedness of its use, which is subordinate to the further raising of the standard of living of all segments and social groups in conformity with the economic capabilities.

Socialist production relations, as a social form of productive forces and the gross material product that is created by them, express the ties among the members of society with respect to the social content of production, its goal, the use of the final economic and social result. These relations, for socialism, are characterized by a collective nature, by the lack of exploitation, by the planned nature of their manifestation, and by other specific attributes. They are the result as well as the further prerequisites for the development of our economy.

Economic potential, as a broad category, includes the productive forces that constitute the bulk of its structure. It characterizes the economic might of socialist society. By virtue of that fact, the level of our country's economic development is a derivative of its economic might (potential).

Economic potential, under conditions of socialism, can be represented as the potential capability of creating definite conditions for the life of society. By means of its use, one expresses the peculiarities of the functioning of the organically interconnected sides of production -- the immediately social productive forces and the collectivistic production relations. Therefore, in the action of the economic potential one sees the dialectical unity of the immediately social productive forces as a national-economic functional system of the aggregate live and embodied (basically in the producer goods) labor and the collectivistic production relations.

Substantive productive forces act as a way of production primarily as functional consumer value. Potential means the "productive capability" of society to transform, that is, to adapt the natural and other material blessings to social consumption.

In the system of productive forces, the first and chief productive force is man, the aggregate worker (a cooperative effort of all the production workers), his ability to modify nature, especially on the basis of the modern achievements of scientific-technical progress. Herein lies one of the chief conditions for the true effectiveness of the human factor.

It is necessary to emphasize that the economic potential first of all reflects the social productive forces -- the functional system of live and embodied labor. A form of its expression is the totality of the organically interconnected objective consumer values (social utility) of the producer goods and the gross manpower.

The content of economic potential is revealed in social production. This is explained by a number of circumstances, but primarily by its functions, which are of a historically definite nature.

Under the conditions of socialism, one of its most important functions is linked with the increasingly complete satisfaction of the needs of Soviet citizens in conformity with the basic economic law.

The next function can be summarized as the formation of the corresponding structure of the society, of a worker with collectivistic convictions. This formation occurs both in the process of production, social cooperative action, and the division of labor, and also by means of the creation of the material and spiritual conditions for all spheres of life.

K. Marx commented that "it is necessary to consider a means of production not only from the aspect that it is the reproduction of the physical existence of individuals. To a still greater degree it is a definite means of activity of those individuals... a definite way of life. Whatever the vital activity of the individuals is, that is what they themselves are" (Footnote 1) (K. Marks [Marx], F. Engels, "Soch." [Works], Vol 3, p 19).

Socialist production is of a definitely social nature. It acts as a condition of the communist organization of society, the creative application of forces, and the complete development of the individual.

An important function of the economic potential is the creation of the appropriate material conditions for the nonproductive types of activity. Special importance is attached at the present time to the creation of the necessary conditions for scientific research.

And there is yet another function of it -- the scientific awareness of nature, the ascertaining of newer and newer means for mastering its capabilities.

Under present-day conditions, greater and greater significance in the economic potential has been attached to the production apparatus, the prospected natural resources, and the nonproduction funds. In their functioning one observes the gross labor, the use of consumer values (capacities, raw and other materials), as well as the labor resources, that is, all the factors of production that exist prior to the beginning of the process in potential form. Labor in production takes on social forms of organizing it, particularly the formation of cooperatives, specialization, and the creation of combines. Social labor is also characterized by the proficiency level of the specific labor.

On the basis of its objective content, economic potential is the accumulated labor that manifests itself in the system of reproduction. The subjective content of the potential is the capability of people to use the accumulated labor.

In conformity with its content, the economic potential correlates with expanded reproduction. The objective aspect of the formation of the economic potential manifests itself with greatest force in the production and scientific-technical potential.

Thus, in its chief features, the country's economic potential is determined by:

- the quantity of labor resources and the quality of their occupational training;
- the qualitative and quantitative levels of the fixed assets of the national economy;
- natural resources;
- the level of development of science and technology.

A very important indicator of the country's economic potential -- national wealth -- reflects the country's economic condition and represents in monetary terms the aggregate of the consumer values that have been created and accumulated by society during the entire period of its production activity.

National wealth, in its turn, is the aggregate of the production capacities, which reflects the ability of the means of labor for the maximum production of output, and the extraction and processing of raw materials during a year, day, or shift, in conformity with the established specialization, production

cooperation, and operational mode. That means, primarily, the volume of the fixed production assets and nonproduction assets.

The national wealth also includes the public's personal property, the commodity reserves of enterprises and organizations, state reserves involved in economic circulation, mineral resources, and hydroelectrical resources.

The public's purposeful labor activity which is aimed at the alteration and adaptation of objects of nature for the purpose of satisfying their needs is characterized by:

- the size of the labor resources (men aged 16-59 years, women aged 16-54 years, possessing the necessary development, knowledge, and practical work experience in the national economy);

- labor productivity -- its effectiveness in the process of production, measured by the quantity of time expended for the production of a unit of output, or by the quantity of output produced per unit of time.

Among the generalizing indicators of the economic potential one can include: the increase in the production of the gross social product and national income (used for consumption and accumulation); [the increase] of capital investments, and the activation of fixed assets. They characterize the economic potential in action and serve for the overall evaluation of the level of the country's economic development and its economic growth.

At the present-day stage of development, the economic potential of our country is typified by a high level of productive forces and by dynamic growth. The country's national wealth exceeds 3.4 trillion [3.4 million million] rubles (not including the value of land, mineral wealth, and forests). Approximately half the national wealth consists of fixed production assets, which by the end of the 11th Five-Year Plan came to 1.6 trillion rubles.

Approximately 130 million people are employed in the country's national economy. In the overwhelming majority they have a high level of education and good occupational training. The country has at its disposal a broad network of scientific collectives that are capable of resolving complicated and major tasks in the area of the acceleration of scientific-technical progress.

The natural resources and the potential of the extractive branches of industry make it possible to plan for 1986 the extraction of more than 610 million tons of petroleum, including gas condensate and 670 billion cubic meters of gas, and more than 733 million tons of coal. Today the country possesses production capabilities for producing more than 110 million tons of pig iron, more than 154 million tons of steel, more than 30 million tons of mineral fertilizers (in terms of 100 percent of nutrients), more than 180,000 metal-cutting machine tools, etc.

During the years of the 11th Five-Year Plan the country's national income increased by 17 percent, and the volume of industrial production by 20 percent. There was an increase in the work to accelerate scientific-technical progress and to carry out the technical re-equipping and remodeling of the

existing production. There have been outstripping rates of development in the branches of industry which determine scientific-technical progress in the national economy, as well as those that produce consumer goods. The USSR Energy Program is being fulfilled.

The party's agrarian policy is being implemented, as is the Food Program. The gross output of agriculture during the five-year period increased by 6.0 percent. There were increases in the purchases of livestock and poultry, milk and eggs, the harvests of vegetables and fruits, and the production of food, meat-and-dairy, and fish output. At the same time there are definite difficulties in providing the public with individual food products.

Transport constitutes an important part of the country's economic potential. In the five-year plan that has ended, the freight turnover of all types of transport increased by 18 percent.

On the basis of the rise of the economy and the increase in its effectiveness, there has been a rise in the nation's material and cultural standard of living. The real income per capita of population has increased. The housing problem is being consistently resolved.

An analysis of the degree of use of the country's tremendous economic potential in the 11th Five-Year Plan is also reflected in the correlation of the sizes and rates of increase in the final results of social production and the resources that are involved in national-economic circulation. The growth rates of the fuel-and-energy resources have slowed down. At the same time, practically no provision has been made, in material-substantive terms, for the proper acceleration of the growth rates of Soviet machine-building. This has lowered the key role of machine-building in carrying out scientific-technical progress and in the materialization of the latest achievements of science and technology.

The slowing down of the growth rates for the most important national-economic resources during these years had an effect upon the growth rates for the final results and upon economic growth as a whole. However, the growth rates for resources were lowered more rapidly than for the generalizing indicators for the final results. One saw the effect of the qualitative changes occurring in the country's economy, primarily under the influence of scientific-technical progress and changes in the means of labor. That made it possible to increase somewhat the growth rates for the productivity of social labor.

In the 11th Five-Year Plan there was a certain shift in the direction of improving the use of the production capacities for producing a number of very important types of output, although on the whole it was not possible to provide an efficient level for loading them. The underuse of the production capacities was basically linked with the insufficient development of the specialization and cooperative action in production, with the fact that there was no link between the existing capacities and those that were to be activated, with the slow assimilation of the latter, with the nonfulfillment of the contractual pledges for shipment of output in the assigned products list and variety, that is, was linked with the failure to observe planning

discipline. The replacement of the obsolete fixed production assets was carried out slowly. All this led to a reduction in the return on assets.

The potential that has been created in agriculture is being used with substantial losses; the return on the resources channeled into the development of the agroindustrial complex cannot satisfy society.

A negative effect is exerted on the use of the economic potential by the interbranch and intrabranh disproportions and bottlenecks which developed in the previous periods and which could not be eliminated during the five-year plan that has ended. A noticeable influence is exerted on this process by the existing gap in the dynamics of the value and physical-substantive results of the activity of the enterprises and associations. The definition of the results of socialist production as the value of the produced product does not reflect the actual effect of production, that is, the measure of the satisfaction of needs. As the embodiment of abstract labor, value is always the measure of expenditures, rather than of the result. The evaluation of the activity of enterprises by volumetric value indicators, practically speaking, has directed the collectives toward increasing the cost of the product, and as a result the gross, in monetary terms, increased, but there was an underdelivery of products, articles, and technology.

It is precisely this "expenditure" path of development of the economy that General Secretary of the CPSU Central Committee M. S. Gorbachev has mentioned repeatedly in his statements.

It would seem that one of the most important areas for improving the proportions of socialist production must be the creation of conditions for having the consumer exert an active influence upon the production of articles, upon increasing the role of consumer value in the formation of the proportions. It is especially necessary to mention that the growth and increase in the effectiveness of the use of the economic potential is increasingly influenced by the introduction into production of the achievements of scientific-technical progress, the development of electronics, nuclear energy engineering, biomolecular production, robotic and automated systems, and the production of polymer materials. The strength of this influence also lies in the fact that these branches and production entities, to a greater and greater degree, occupy the place of the "central link" in general economic development.

At the present time the potential of science is tremendous. Every fourth scientific worker in the world is Soviet. The USSR employs more than 43,000 doctors of sciences and almost 460,000 candidates of sciences. There has been an increase in the single fund of science in industry, the expenditures for science from the state budget, the number of scientific-research institutes, and the number of their branches and departments.

At the same time, in the 11th Five-Year Plan the influence of scientific-technical progress upon the carrying out of the technical remodeling of the national economy and, on that basis, the transformation of the material-technical base of society proved to be insufficient.

The use of the scientific-technical potential is increasingly linked with the introduction of scientific discoveries and technical resolutions into production, with the dialectic interaction of the fundamental, applied, and technical sciences, and with their directedness toward the most rapid renovation of the production apparatus on the basis of advanced technology and toward the broad introduction of the most progressive technological systems. However, the insufficient level and quality of the new technology frequently do not make it possible to assimilate the modern technological schemes effectively, and this, in its turn, leads to considerable overexpenditures of raw and other materials and of energy. The development and use of the economic potential is directly linked with the efficient placement of the productive forces, and this must guarantee the saving of social labor on the basis of its social cooperation and division.

A component of the better use of the country's economic potential is the accelerated development of the productive forces of West and East Siberia, the Far East, and the northern rayons. Already two-thirds of the nationwide extraction of petroleum and more than half the extraction of gas is provided by West Siberia.

The complete development of the economic regions, with a greater technical and technological relations among the production entities in the various branches than has been the case previously, will make it possible to use the regions' potential more intensively.

To a greater and greater degree, the condition and use of the country's economic potential is influenced by the active participation of the USSR in the international division of labor. There has been a considerable strengthening of the cooperation with the CEMA member countries and other socialist states, a deepening of socialist economic integration, an increase in foreign-trade turnover, and an expansion in the economic ties.

Thus, in the 11th Five-Year Plan there was a continuation of the planned use of the economic potential and the forward movement of the economy. The accumulated potential makes it possible to resolve the complicated tasks linked with the development and improvement of the material-technical base of socialism, and creates the material prerequisites for its intensification and for the increase in effectiveness. Simultaneously there has been an increase in the objective need for the acceleration of the country's social and economic development.

That acceleration is required by the rapidly growing needs of society, by the necessity for the more rapid and more effective use of the achievements of the scientific-technical revolution, the intensification of specialization and cooperative action in scientific-technical and production efforts, including those within the framework of the CEMA member countries.

Simply on the basis of the qualitative reorganization in the development of the national economy and the taking of decisive steps to convert it to methods of intensification, it is possible to resolve successfully the tasks of the steady rise in the standard of living of the Soviet citizens, the

reinforcement of the economic potential, and the maintenance of the country's defense capability at the proper level.

The Basic Directions for the Economic and Social Development of the USSR in 1986-1990 and the Period Until the Year 2000 stipulate, by the end of 2000, the doubling of the country's production potential, with its fundamental qualitative renovation. It is planned to carry this out by means of the broad conducting of operations involving the technical remodeling of the branches and production entities, the qualitative transformation of the productive forces, the cardinal raising of the level of production, and primarily by means of the reorganization of the investment and structural policy. The qualitative renovation of production must be accompanied by the introduction of the most advanced technology, especially electronics and computers, which exert a decisive influence upon the effectiveness of the means of labor, and the technological systems in all branches.

The improvement of the use of the economic potential in the 12th Five-Year Plan and the more remote prospect is viewed as the gigantic development of the productive forces, the resolution of qualitatively new tasks, and the further improvement of production relations.

The effective use of the economic potential in the forthcoming period must be closely linked with the resolution of the tasks linked with the improvement of planning and the methods of management, and with the reinforcement of discipline and responsibility in all work sectors.

The tasks assigned in the Basic Directions with regard to raising the scientific level of planning objectively require USSR Gosplan, as the country's central scientific-economic agency, and the scientific efforts of the academies of sciences, to achieve, in accordance with the present-day level of development of the productive forces and production relations, the further ascertaining of the present-day peculiarities of the content, elements, and functions of the economic potential which could be used in the practice of planning work in order to improve the planning itself, and to guarantee the most important proportions in the national economy. The conclusions from this research could find reflection in the Methodological Instructions For Elaborating the State Plans for the Economic and Social Development of the USSR.

The introduction into planning practice of the category of the economic potential must make it possible to concentrate the attention of USSR Gosplan on the strategically important problems of the development of the economy.

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CSO: 1820/122

ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

NEW MANAGEMENT TECHNIQUES CALL FOR ECONOMIC ADJUSTMENTS

Moscow PLANOVoye KHOZYAYSTVO in Russian No 3, Mar 86 pp 54-61

[Article by USSR Gosplan Deputy Department Chief V. Rzheshhevskiy: "Economic Review: The Use of New Management Techniques in 1986"]

[Text] It was noted in the Political Report of the CPSU Central Committee to the 27th Communist Party Congress of the Soviet Union that the main thing now is to advance purposefully step by step in the chosen area, supplementing and improving the management mechanism on the basis of cumulative experience, eliminating everything that is obsolete or does not justify itself.

In 1986 127 union, union-republic and republic ministries and departments will be switched over either fully or partially to new management conditions.

The CPSU Central Committee and the USSR Council of Ministers, evaluating positively the results of economic experiment, adopted a decree "The Broad Distribution of New Management Techniques and Strengthening Their Influence on the Acceleration of Scientific and Technical Progress," in accordance with which USSR Gosplan, ministries, departments and production associations (enterprises) have implemented certain measures. They are directed first of all toward strengthening the influence of the management mechanism on accelerating scientific and technical progress.

For the timely preparation for production, USSR Gosplan delivered targets for the yearly plan indicators and for the funds for material and technical resources by principal types to ministries and departments operating under and switching over to the new conditions on a preliminary basis in August-September 1985. Among the control figures, USSR Gosplan established stable economic standards for 1986 and for the whole 12th Five-Year Plan. Measures were adopted for converting indicators of scientific and technical progress into a component part of all parts of the plan. In the "Industry" section of the draft of the 1986 plan, an independent subsection "The Production of the Most Important Types of Highly Efficient Industrial Products" with specific targets by ministry was singled out for the first time.

This ensures the rapid growth of the production of highly efficient products. For example, the Minkhimmash [Ministry of Chemical and Petroleum Machine Building] plan for 1986 envisages a growth in the volume of commodities production of 105.9 percent, along with 123.4 percent in the production of

efficient products. At the enterprises of Mintyazhmash [Ministry of Heavy and Transport Machine Building], the output of commodities production will increase by 105.6 percent, machinery for continuous casting stock by 122 percent, mainline eight-axle freight cars by 110 percent, and mainline two-section diesel locomotives by 200 percent etc. The amount of commodity production in the Minelektrotekhprom [Ministry of the Electrical Equipment Industry] sector will grow by 106.3 percent, and the production of electric motors and turbogenerators of the new uniform series by 180-200 percent. At the enterprises of Minstankoprom [Ministry of the Machine Tool and Tool Building Industry], the total volume of production in 1986 will total 107.8 percent of the previous year, 10 percent more numerically controlled machinery will be produced, 38 percent more hammer-press machinery, 56 percent more industrial robots etc. Such plan drafts are also projected in other machine-building ministries.

Starting in 1986, economic conditions will be created that will make the output of obsolete and inefficient products unprofitable for enterprises. With this aim, the procedure for using rebates from wholesale prices is being made more strict. Thus, starting in 1986, when a product is certified in the first category of quality, a rebate on the scale of 5 percent is established for it, which then increases each year. According to preliminary calculations, this measure will have a substantial effect on replacing products and increasing their quality right from the first year of the five-year plan. Most products will be certified once every three or four years. Consequently, in the usual year a maximum of approximately one quarter of the products can be allotted to the first category of quality. In this case, at enterprises where insufficient work is conducted on the technical level of products output, losses due to rebates will total up to 1.5 percent of the yearly product sales volume and approximately 5-7 percent of profits compared to the plan, since in the plan rebates will not be taken into account. The indicated measures will not affect production, but will affect to a significant extent additions to the profit-and-loss funds, including the employee bonuses for the management apparatus of enterprises and associations.

An important means of accelerating scientific and technical progress is improving the pattern of capital investment and increasing the role of the funds of associations and enterprises themselves for improving the production equipment and technology.

A careful study of the plan draft for 1986 made it possible to envisage rapid growth in capital investment for the technical retooling and reconstruction of existing enterprises and provide for it at 122.8 percent versus the 1985 plan. The share of technical retooling in the total amount of capital investment on production construction will total 38.7 percent, which is considerably greater than the 1985 level and the control figures for 1986.

With the intention of more fully reflecting in the 1986 capital-investment plan the measures being implemented at the expense of means of the production-development, social-and-cultural functions and housing-construction funds and providing them with the necessary resources, in April of 1985 USSR Gosplan delivered to all ministries and councils of ministers of the union republics a special form for accounting for the corresponding proposals of enterprises and

associations. The volumes of work declared by the ministries and departments that are financed by the indicated enterprise funds will be fully provided for by the limits of capital-investment and construction and installation work, the fulfillment of which is envisaged to be implemented by both procedural and managerial methods.

Concurrently with the methodological instructions on the planning procedure for capital investment under the new conditions approved by USSR Gosplan in November of 1985, it is envisaged that centralized capital investment for the construction of non-production facilities will be allocated only in connection with the start-up of new facilities, as well as for assisting individual enterprises that are located in the northern and eastern regions of the country with considerable wear to the housing stock.

Preparing for work in the new manner had a positive effect on the work indicators of a number of ministries. Thus, a considerable portion of those sectors switched over to the new management conditions should provide for all of the increase in production in 1986 through growth in the productivity of labor with a minimal increase in the number of workers. As a result, a reduction in employees compared to the expected 1985 level is envisaged for this group of ministries in 1986. For industry overall, the increase in the volume of production through an increase in the productivity of labor is foreseen to reach on the scale of 95 percent.

A higher rate of product cost reduction in 1986 compared to that achieved last year is envisaged for the majority of the ministries converted to the new management conditions. Thus, for 14 ministries, a reduction in expenditures of 0.9 percent, versus 0.4 percent in 1985, is projected per 1 ruble of commodity output. A substantial increase in the rate of cost reduction is planned to be achieved at the enterprises and associations of USSR Mintsvetmet [Ministry of Nonferrous Metallurgy], Minkhimprom [Ministry of the Chemical Industry], Minavtoprom [Ministry of the Automobile Industry] USSR Minlegprom [Ministry of Light Industry] and others.

As a result of scientific and technical measures among the indicated ministries in 1986, savings from product cost reductions will exceed last year's plan by 14.3 percent. Material expenditures per 1 ruble of commodity output will decline by 0.8 percent, whereas in 1985 they declined by 0.4 percent.

Along with the positive results of management according to the new conditions, however, there are shortcomings as well. For example, old approaches, based on the necessity of allocating a significant amount of resources and the adoption of less intensive targets, still predominate as before in the development of plan drafts in a number of ministries. Thus, the rate of production growth among 11 machine-building ministries for the 12th Five-Year Plan totaled, according to the initial proposals of the ministries, 124 percent versus the 141 percent envisaged in the draft of the Fundamental Areas.

By virtue of the inadequate mobilization of resources, the rate of increase in production volumes and productivity of labor according to the 1986 plan for

the group of ministries converted to the new conditions is foreseen as 1 percent (a point) lower on average than the average annual growth rate of these indicators according to the control figures of the 12th Five-Year Plan.

Significant measures were implemented by USSR Gosplan and central economic ministries and departments for the further dissemination of the new management techniques.

Beginning in 1986, preparations for the dissemination of the new conditions of management are being concluded at associations and enterprises of ministries where definite experience was already accumulated in 1984-85. This relates to enterprises in the machine-building, light, food, meat, dairy products and local industries and enterprises and administrations of the fish industry, as well as domestic services to the populations of the union republics. Starting in 1986, associations and enterprises of 83 union, union-republic and republic ministries will be converted to the new management conditions.

Working in the new manner will be all production associations (enterprises) of USSR Mintsvetmet, Minkhimprom, Minudobreniy [Ministry of Mineral Fertilizer Production], Minsudprom [Ministry of the Shipbuilding Industry], Minpromsvyazi [Ministry of the Communications Equipment Industry], USSR Minrybkhov [Ministry of the Fish Industry], Minmedprom [Ministry of the Medical Industry], USSR Goskomizdat [State Committee for Publishing Houses, Printing Plants and the Book Trade], BSSR Goskomizdat, BSSR Ministroymaterialov [Ministry of the Construction Materials Industry], BSSR Minlesbumprom [Ministry of the Timber, Pulp and Paper, and Wood Processing Industry], LSSR Minmebeldrevprom [Ministry of the Furniture and Wood Processing Industry], and BSSR Mintopprom [Ministry of the Fuel Industry], as well as individual production associations of the following ministries: 15 enterprises of the Soyuzshina VPO [All-Union Production Association] of Minneftekhimprom [Ministry of the Petroleum Refining and Petrochemical Industry]; the Intaugol, Gukovugol and Krasnoarmeyskugol production associations of USSR Minugleprom [Ministry of the Coal Industry]; enterprises of the Tsentronebel, Tyumenlesprom and Karellesprom VPOs and several other associations and enterprises of USSR Minlesbumprom; and, 21 production associations and enterprises of the Soyuzmetallurgprom VPO of USSR Minchermet [Ministry of Ferrous Metallurgy].

For the first time, all transportation enterprises of RSFSR Minrechflot [Ministry of the River Fleet], the ministries of motor transport of the BSSR, KaSSR, GSSR, LaSSR and Glavmosavtotrans [Main Administration of Automobile Transportation of the Moscow City Ispolkom], as well as all communications enterprises subordinate to the USSR Minsvyazi [Ministry of Communications] and communications ministries of the union republics, will be converted to the new conditions.

The specific operational features of individual sectors of industry, transportation and communications have been taken into account in the conversion of the enterprises and organizations of the indicated ministries to the new management conditions.

In the case of changing the geological mining conditions for enterprises of USSR Mintsvetmet, Minudobreniy and USSR Minugleprom, for example, it was

established that the wage fund in the five-year and yearly plans would be preserved as an absolute sum, and then corrected depending on their fulfillment of fund-forming indicators.

All enterprises of USSR Minrybkhov that are in production associations will operate in the new manner--from the production of fish and seafood products to their sale to the population.

The enterprises and organizations of USSR Goskomizdat--typography, published and the book trade--are also being converted.

A distinguishing feature of the new management techniques in transportation and communications is the orientation toward the major management link as the main objective for expanding rights and increasing responsibility for the results of operations. Thus, in Minmorflot (Ministry of the Maritime Fleet) and RSFSR Minrechflot, the maritime and river shipping companies along with the whole fleet, all ports, track facilities, that is, in a complex, and in motor-vehicles--not only associations and enterprises, but also the ministries of motor-vehicle transport of the union republics and Glavmosavtotrans overall--are being converted for operations in the new manner. In such large republics as the RSFSR and the KaSSR, the principal management link will become the oblast motor-vehicle association, in communications, the oblast production and technical communications administration, and in the union republics, the ministry of communications. Here, according to the standards, all economic incentive funds are being formed and their rights and responsibility are being increased. This is assisted by the technological and organizational features of the implementation of the basic type of activity of the enterprises and associations of transportation and communications.

The rights and responsibility that are endowed upon the shipping companies, ministries, oblast motor-transport associations and production and technical communications administrations will be brought to the primary line enterprises within the limits of their competence.

A review of the course of preparation of associations and enterprises for operating under the new management conditions at sessions of the Commission on Overall Guidance of Economic Experiment, at USSR Gosplan, as well as visits to the localities showed that the ministries have basically completed this work in a timely manner.

Thus, in the LiSSR Minmyas'molprom (Ministry of the Meat and Dairy Industry) and the Vilnius and Kaunas meat and dairy combines, the drafts of the plan targets for the new indicators and the corresponding limits were delivered in a timely manner, economic standards were approved, and serious work was implemented in training the personnel at all levels of management. Analogous work was conducted at the Odessa Prodmash Plant of Minlegpishchemash (Ministry of Machine Building for Light and Food Industry and Household Appliances) and at enterprises of other ministries.

However, several instances of violations were also discovered. For example, the Voskresensk Chemical Plant and the Novgorod Azot Association of Minudobreniy received plan targets according to the old system of indicators,

and the economic standards were late. Therefore, the associations were not able to be oriented toward the broad utilization of their own funds for improving production and resolving social issues in a timely manner. In the plan for 1986, for example, the share of technical retooling at the expense of the development fund in the total amount of funds allocated for this purpose for the Azot Association totaled just 3.8 percent, and the utilization of the social-and-cultural functions and housing-construction funds for the construction of housing, children's institutions etc. in the plan draft was not envisaged at all. It seems that it is necessary to strengthen monitoring on the part of the ministries for the timely delivery of new indicators, economic standards and limits to the enterprises to eliminate such instances.

Further improvement of the management mechanism in the new five-year plan is connected with the resolution of the following principal tasks: complete the conversion of all industry enterprises to the new operating conditions in 1987, and all enterprises and organizations of other sectors in the sphere of material production over the course of the five-year plan; continue improving the specific forms and techniques for increasing the independence and responsibility of associations and enterprises in planning production and growth in its efficiency; develop and incorporate management techniques directed toward strengthening the vested interest and responsibility of associations (enterprises) and management organs in increasing the efficiency of the reproduction process with in the aggregate of current production, capital construction and the development of science and technology.

To complete the conversion of all of industry to the new management conditions in 1987, it is necessary to develop additional measures for accounting for the specific features of the activity of the producing enterprises of the metallurgical, coal, oil and gas industries, as well as enterprises in timber exploitation, power engineering and a number of other sectors.

It would be expedient, in all sectors of industry where the new management techniques are not applied, to convert individual associations (enterprises) in the second half of 1986 with the aim of increasing the quality of preparation for operating under the new conditions and accumulating the necessary experience at all levels of administration.

The utilization of the experience of preparing and converting transportation ministries and organizations for operating in the new manner in 1986 will permit the completion of this work in 1987 for all types, except for aviation, concurrently with industry, which is necessary in connection with the growing role of the shipping process. Principal in the conversion of transportation organizations to new management conditions should be the orientation toward the fulfillment of shipping in the assigned freight mix according to the agreements concluded with the utmost reduction of transport losses.

An important area for improving the management mechanism in the new five-year plan is the search for and realization of specific forms and methods of plan management and incentivizing that will raise the efficiency in practice of management principles already developed. This relates to all elements of the management mechanism.

It is necessary to increase persistently the discipline of product delivery, creating the necessary material pre-conditions. Increasing the work period on the plan draft had a substantial effect on the fulfillment of the adopted obligations, which made it possible for the production associations (enterprises) to elaborate in a timely manner the product mix of production, conclude agreements and improve the study of questions of material and technical supply and the sale of finished products.

In order to reinforce the positive results, USSR Gosplan was charged with delivering to the ministries and departments of the USSR and the councils of ministers of the union republics preliminary targets for production in physical terms and the material-resource funds for a broad product range in August of the year preceding the plan year.

In preparing the plan draft for 1986, this task was basically fulfilled at the highest levels of administration. However, as a review in November of 1985 in the USSR Council of Ministers of the reports of a number of ministries on the course of their preparation for the transition to the new management conditions showed, at the enterprise level this important element of the new management mechanism was really not utilized.

The lengthening of the period for working on the plan draft and the timely delivery to production associations and enterprises of targets for mix of production and the limits of material and technical resources for a broad range of products is an important task of USSR Gosplan, USSR Gossnab and the sector ministries for the further improvement of the management mechanism.

The timely provision of material resources to enterprises, the rebuilding of existing forms of product marketing and the active participation of territorial supply organs in their sale have especial significance in strengthening supply discipline. Specific measures have been adopted in this area. This is still not enough, however. Over many years, there have been no advances in the organization of direct long-term managerial contacts between suppliers and consumers, wholesale trade is being developed poorly, and the territorial organs of USSR Gossnab are not demonstrating the requisite activeness in improving and accelerating the turnover of material values. Transportation organizations are creating substantial difficulties in this.

USSR Gossnab, USSR Gosplan, MPS [Ministry of Railways] and other transportation ministries must create conditions for improving the material and technical supply of enterprises and construction sites and the timely shipment of freight in the required mix according to the agreements concluded.

The further improvement and dissemination of team forms of organization and wages has great significance in the new five-year plan. Team cost accounting and the team contract, however, are only the beginning. It is necessary to seek ways for its dissemination to larger subunits, so as to unite gradually the method of cost accounting of associations and enterprises "from above" with the development of contract work forms "from below"--in teams, sections and shops. Contract forms of labor organization in production sections and other subunits, applying, in particular, the experience accumulated by the enterprises of Novosibirsk Oblast, should be more broadly utilized.

A system of measures for work incentives with fewer workers makes it possible to incorporate new wage scales and salaries at enterprises through economized funds, that is, within the limits of the wage fund as determined by the standards. Positive experience in this has been accumulated at the Belorussian Railroad, which could be expediently disseminated to enterprises and associations of industry and other sectors of the economy.

It is necessary to improve the specific forms and methods of improving the vested interest and responsibility of associations (enterprises) in implementing the technical retooling of production and the resolution of social tasks through the funds of the labor collectives themselves.

The draft of the new five-year plan envisages an approximate doubling over the five years in the share of funds from the production development fund of associations (enterprises) of industry ministries in the total amount of capital investment for productive purposes. Taking into account that technical retooling and reconstruction will also be conducted through centralized capital investment, the projected growth in the production development fund in industry will make it possible, by the end of the five-year plan, to implement the retooling of existing enterprises basically through their own funds.

The resolution of this problem in the first years of the five-year plan is associated with certain difficulties and, first and foremost, the slow rebuilding of the work style and techniques of the central apparatus of ministries and enterprise managers, as well as the fact that a considerable portion of capital investment is utilized in new construction begun earlier.

USSR Gosplan, USSR Gossnab and industrial ministries are called upon to continue the development and incorporation of measures that provide for the guaranteed allocation of the limits of capital investment, materials, equipment and subcontract work carried out through fund resources.

The calculations of USSR Gosplan for the 12th Five-Year Plan envisage a substantial increase in the role of the social-and-cultural functions and housing-construction fund in resolving tasks of social development of labor collectives, associations and enterprises operating under the new conditions.

Stable standards for the increase of the social-and-cultural functions fund for every percent of increase in the productivity of labor affirmed for 1986-90 (in certain sectors--for increase in profits) will make it possible to increase the size of the indicated fund by 1990, with the achievement of the growth rate of fund-forming indicators envisaged by the control figures, of roughly 2 times for the economy and industry, and almost 3 times for machine-building ministries.

The total funds that can be obtained by associations and enterprises of this or that ministry, after allowing for expenses not associated with capital construction, will correspond roughly to the amount of capital investment envisaged for the ministries in the five-year plan calculations for non-

productive construction for existing enterprises by the end of the five-year plan.

In this manner, at the end of the five-year plan the funds of the social-and-cultural functions and housing-construction fund will become the basic, and for many the only, source of financing for non-productive construction at the end of the five-year plan.

In the first years of the five-year plan, for example 1986, however, more than 70% of capital investment allocated to the machine-building ministries for non-productive construction will be distributed regardless of the labor contribution of the collectives of existing enterprises. What is more, approximately half of the machine-building enterprises did not receive any capital investment for non-productive construction at all in the plan for 1986 that is financed from non-centralized sources.

In order to ensure the high incentivizing role of the social-and-cultural functions and housing-construction fund from the beginning of the new five-year plan, it would be expedient to change, starting in 1987, the existing procedure for planning capital investment for non-productive construction, including for industrial ministries. For this it is necessary to increase substantially the share of the increase in housing that is constructed through the funds of labor collectives in the total amount of housing construction. With this aim, it is necessary to direct the capital investment freed up in connection with the fulfillment of the conditions of the CPSU Central Committee and USSR Council of Ministers decree "The Broad Distribution of New Management Techniques and Strengthening Their Influence on the Acceleration of Scientific and Technical Progress," in which it is noted that centralized capital investment for the construction of facilities for non-productive purposes is allocated to the ministries only in connection with the introduction of new facilities and for assisting certain enterprises, toward financing and material supply for housing construction, implemented through the funds of the enterprises themselves. Advance financing of such construction can be broadly utilized in this through bank credit. The reimbursement of bank loans through funds of the social-and-cultural functions and housing-construction fund should prompt the enterprises to provide for the annual achievement of a high growth rate of fund-forming indicators.

The interrelationship of cost-accounting industrial enterprises that implement housing construction through their own funds and bank credit with the local urban organs where they are the only customer should be elaborated, so as to eliminate difficulties that arise. Furthermore, it can be recommended that production associations (enterprises) create where necessary cost-accounting construction and installation sections for the construction of facilities for non-productive purposes.

It would be expedient to introduce change in the procedure for planning and financing the construction of facilities for non-productive purposes gradually and with a view toward the experience of the machine-building ministries. The enumerated measures can play an important role in raising the effectiveness of the new management techniques.

At the same time, it is necessary to search persistently for new ways of further increasing the efficiency of production and intensifying it. Measures were adopted in 1985 that made possible an ascent to a new level of independence and responsibility for enterprises in the development of production through their own funds. The discussion concerns the experiment conducted in such major associations as AvtoVAZ and the Sumy NPO [Scientific Production Association] imeni M. V. Frunze.

Experience in improving the management mechanism testifies to the necessity of a gradual transition from cost accounting of current production within the framework of the yearly plan to cost accounting for reproduction that ensures the vested interest of the collectives of enterprises and associations in the efficient utilization of all existing resources and funds, including capital investment funds.

Cost-accounting monitoring of current production stipulates the responsibility of the enterprises for the rational utilization of wage, materials and fuel expenditures within the framework of the approved yearly plan. The cost-accounting treatment is not being disseminated to the whole production process. The proportions of the resources in the next plan year with the final results of production in the current year are partially linked in a cost-accounting manner. Therefore, it is profitable for the enterprise to achieve the allocation of additional resources in the development of the next plan.

Such a utilization of the principles of cost accounting in the administration of the production process economically links the proportions of the resources obtained with the final results. This is ensured by the application of stable economic standards.

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CSO: 1820/124

7 July 1986

INVESTMENT, PRICES, BUDGET, AND FINANCE

FINANCING OF NEW TECHNOLOGY DEVELOPMENT EXAMINED

Moscow FINANCY SSSR in Russian No 1, Jan 86 pp 23-29

[By Doctor of Economic Sciences G. A. Tsaritsina: "The Economic Mechanism and Accelerating the Development of New Technology"]

[Text] The draft of the new version of the CPSU Program, the provisions of which are being discussed today in many of the country's labor collectives, notes that a major acceleration of scientific and technological progress is a fundamental issue in the party's economic strategy. This strategy is aimed at carrying out a new technical reconstruction of the national economy and its shift to a course of intensive development, and at the Soviet economy's attainment of a new level of organization and efficiency.

The putting into production of new machinery is an important stage in scientific and technological progress (STP). The need to reduce the time required for the "research-to-production" cycle, and the need for all branches of the economy to reach the forward frontiers of science and technology require a profound restructuring of the system of planning and management and the entire economic mechanism. The essence of this restructuring consists in raising the efficiency of the centralized principle in management and planning, expanding the economic independence and responsibility of enterprises and associations, and utilizing more flexible forms and methods of management, economic accountability and commodity-money relations, and the whole arsenal of economic levers and incentives.

The main lever of management in the national economy, including the management of scientific and technological progress, is planning. It is the plan that determines the required national-economic proportions, including the volume of the production of new machinery, the structure of this production, and the basic areas of the introduction of more up-to-date implements of labor.

Planning reflects the requirements of the objective law of the planned proportional development of the national economy. But this law, of course, is not the sole economic law that operates under socialism. Socialist production, including the process of the development of new technology at enterprises, develops under the influence of a whole system of economic laws that reflect the essence of various aspects of production relations. A special place in this system is occupied by the fundamental economic law of

socialism, which defines the goal of production and the means of reaching it: the fullest possible satisfaction of the constantly growing material and spiritual requirements of the members of society through a constant growth of production on the basis of scientific and technological progress and the utmost intensification of production. It follows from this that the main goal to which the development of new technology under socialism is subordinate is the same as the goal of production as a whole: to serve the satisfaction of the requirements of the members of society in the best possible fashion. This problem is solved through the development and implementation of concrete plans for the development of production as a whole on the basis of STP, i.e., through the practical implementation of the requirements of the law of the planned proportional development of the national economy. However, planning should function in a single complex with other economic levers. In other words, it is essential to make use of all of socialism's other economic laws, as well.

The management of STP at enterprises is part of the overall management of production in socialist society. Therefore, management of the process of putting new machinery into production depends on the successful application of economic levers in the production sphere. This means a system of specific measures for the utilization of socialism's economic laws, including the law of value.

New machinery is a commodity, like all the implements of labor created under socialism. It possesses two properties of a commodity: value and consumer value; it is sold and bought, and these processes take place through the medium of money.

Enterprises producing new machinery operate on the basis of economic accountability, which under socialism is directly and closely bound up with the existence of commodity-money relations. It is known that enterprises' economic accountability presupposes: the compensation of outlays through the results of performance, wherein both outlays and results are expressed in monetary form; the compensation of an enterprise's expenses by means of its income (self-supporting operations [samookupaemost]); and the exceeding of expenses by income (the profitability of production). In these conditions, the process of the development of new technology should also be subordinated to the requirements of economic accountability. In practice, this is not always observed.

In conditions of socialism, the utilization of the categories of commodity and money is carried out in a planned fashion. Therefore, the depth of the influence of value categories depends on the intelligent utilization of them by society and the state. At the present time, when the task is set of overcoming the specific difficulties that arise in the process of developing new technology, the problem of improving the planned utilization of value levers is very important.

The categories of commodity-money relations in the process of the production of new machinery are price, unit-cost, profit, credit, wages and bonuses, and the special fund for reimbursing the costs of putting new machinery into production and research expenses--the unified fund for the development of

science and technology and the production development fund. They constitute economic levers by means of which the state influences the production process.

The putting of new machinery into production has specific features in comparison to the production of ordinary output. These specific features inevitably affect the nature and methods of the application of the law of value. They require a special approach to management of the process of putting machinery into production with the help of cost levers. At present, in our view, the specific features of this process are by no means fully taken into account and often are even ignored.

In the first place, the very process of putting new machinery into production, which has its own cycles, or stages, is specific. The first stage encompasses the time required for the development and final modification of a prototype, and the second stage encompasses the time of the initial development of the series production of the new item (the first two to three years of series production). The putting-into-production period is considered over when all the design indices for the new machinery are attained.

In the second place, the process of putting new machinery into production is characterized by a certain unpredictability of the results of exploration. This unpredictability can result from the selection of one of several variants of prototypes of the new machinery, and sometimes from an abandonment of previously discovered variants and shift to others. All this demands not only considerable outlays but time. This is the reason for the specific features of the value cycle of new technology during the putting-into-production period; the manufacturing enterprises does not receive a commensurate economic effect immediately upon manufacture of the new item but gradually, after several years. In other words, large one-time outlays are made at the outset, but the recovery of the money occurs only after a certain time interval. This is called the time lag of the outlays entailed in putting new machinery into production and is further evidence of the specific features of the value cycle of new technology.

In the third place, when new machinery is put into production it usually happens that enterprises' current indices, including value indices, deteriorate: overall production volume and profits decline, unit-cost rises, and economic-incentive funds may be reduced. It is also important that economic-accountability indices per unit of labor-intensiveness drastically deteriorate if compared to indices for the production of products already in production. Whereas proportional indices for such products improve from year to year, for new products they are initially lower. And here it is very important to utilize proportional value indices: the correlation of value indices (prices, profit in rubles) and the labor-intensiveness of the manufacture of articles (a physical index in norm-hours). It is precisely through these proportional indices that the process of putting new machinery into production influences the basic indices of an enterprise's operations as a whole. The following data characterize this situation using the example of the process of putting two models of new machinery into production (see table).

It is evident from the data given that the proportional volume of production for new models at various stages is lower than for replaced models by a factor of 1.2 to 2, and that proportional profits are lower by a factor of 1.6 to 7.3. Whereas each norm-hour of labor outlays for a replaced machine provides more than eight rubles of commodity output and nearly 1.8 rubles of profit, the corresponding figures for new machinery are, on the average, four to six rubles of production volume and about one ruble, or less, of profit. Moreover, lower proportional indices are registered both in the period of the development of series production and during mass production. It is obvious that the production of new machinery is disadvantageous for an enterprise in comparison to the production of replaced machinery throughout the entire period in which the new machinery is being put into production.

Dynamics of Proportional Economic-Accountability Indices
For New and Replaced Machinery

Model	Year of pro- duction	Quantity (Thousand units)	Proportional production volume (per 1 norm-hour of labor-intensive- ness)	Proportional Profits (per 1 norm-hour of labor intensiveness)
Replaced since 1977	last	27.4	8.19	1.77
New (series production begun in 1978)	first	1.3	3.91	----
	second	28.6	4.73	0.44
	third	29.2	6.74	1.02
	fourth	27.9	6.75	1.05
New (series production begun in 1979)	first	1.9	5.09	0.24
	second	3.2	5.90	0.77

The index of the labor-intensiveness of production was used to calculate the data given. But, as is known, this index is contained only in an enterprise's current technical, output and financial plan and is not a report index. This factor makes it difficult to use the given methods to analyze the influence of putting new machinery into production on enterprises' economic-accountability indices on a broad scale. Therefore, it is necessary and possible also to employ other indices--for example, using in place of the labor-intensiveness index the index of the sum of basic wages per unit of replaced and new machinery. In our example, calculations performed according to this formula show the following: proportional production volumes and profits for replaced machinery come, respectively, to 11.96 and 2.59 rubles per ruble of basic wages; for one new model, by year of production, proportional production volumes come to 3.50, 7.77, 8.64 and 9.07, and proportional profits come to 0.73, 1.31 and 1.34 (starting with the second year, since the new machine is produced at a loss in the first year); for the other new model the proportional production volumes are 8.26 and 8.02, and the proportional profits are 0.39 and 1.05. The indices of the replaced model

surpass the comparable indices for the new model by a factor of 1.3 to 3.4 in the case of proportional production volumes and a factor of 1.9 to 6.6 in the case of proportional profits. This difference varies considerably from the difference determined using the labor-intensiveness index, but it, too, attests to the disadvantageousness of putting new machinery into production.

Thus, the putting of new machinery into production temporarily worsens value indices--overall indices and, especially, proportional indices. This cannot help being reflected in enterprises' attitude toward the process of putting new machinery into production. In the case of putting new products into production, the basic principles of economic accountability are not fully realized: there is a comparison between outlays and results in monetary form, but operations are not self-supporting and sometimes even fail to produce the necessary profitability. As a rule, in the period during which new items are put into production the profitability of the new items is lower than that of items already in production. In order to accelerate scientific and technical progress it is necessary to achieve a situation in which the profitability of new items is not lower but even higher than that of items already in production. Naturally, this can be achieved if products subject to removal from production are not highly profitable.

The specific features of putting new machinery into production give rise to the objective necessity of providing special economic incentives for doing so and special measures of reward. This is understandable, since the specific features of the period of putting new machinery into production give rise to the specific features of new machinery as a commodity. Therefore, there are two different value methods for providing incentives to enterprises: for general economic-accountability indices, and for new machinery.

In the fourth place, because of the specific features of the process of putting new machinery into production, at both stages of this process there are special and, furthermore, different forms of reimbursement for its costs. Whereas, in the case of products that have already been put into production, outlays for development are fully reimbursed by means of prices, in the case of products that are in the process of being put into production, prices make up for only part of the outlays. Therefore, two forms of reimbursement of outlays for putting new machinery into production are used: price and money from the unified fund for the development of science and technology, with price playing the dominant role. The specific nature of the operation of the law of value during the period in which new machinery is being put into production is that the value of the commodity (the new machinery) is expressed in a dual fashion, in two forms, whereas the value of articles already in production is expressed only in wholesale price. This requires a scientifically substantiated and practically expedient combination of prices and money from the unified fund for the development of science and technology. Thus, the classic requirement of the law of value regarding the equality of the sum of prices to the sum of values of a commodity is realized in a special fashion in this case--in the form of the sum of prices and money allocated from the unified fund for the development of science and technology for the given model of new machinery. The general task during this period is to ensure that manufacturing enterprises are compensated for their socially

necessary outlays for the manufacture of new machinery at each stage in the process of putting it into production.

It seems to us that these are precisely the specific features from which one must proceed in determining the ways to intensify the influence of value levers on accelerating the process of putting new machinery into production at the present stage: it is necessary, in the first place, to fully reimburse all socially necessary production costs for the manufacture of prototypes; in the second place, to provide special incentives to producers for the development of such prototypes; and in the third place, to provide for the prototypes' introduction into use in such a way as to prove advantageous for the user.

An important place in the incentive system belongs to such a cost lever as price. During the period in which the prototype is manufactured it is the main cost form of creating economic interest on the part of enterprises, and it should ensure the producer reimbursement of all his justifiable outlays and bring him a profit. In this connection, the user should pay the producer a lower price that accords with the future lower cost of the given machinery once it has gone into series production. All this should be taken into consideration in price formation.

At the present time the price-formation system is receiving further development. On the one hand, the principle, which has proven itself in practice, of setting prices with a view to the effectiveness of new products is being preserved. On the other, the principle of price stability over the extent of a five-year period is being introduced. This gives greater substantiation to enterprises' performance indices, which are confirmed for a five-year period and, moreover, creates prerequisites for a more precise determination of the amount of the costs of putting new machinery into production and of the money required to reimburse these costs.

In our view, during the initial period in which a new item is put into production it would be a good idea to set two prices for a prototype: one for the manufacturer, and the other for the user. A variant on this system is to reimburse the producer for part of his outlays from the unified fund for the development of science and technology, using this money to form the manufacturer's profits and compensate him for the costs of putting the item into production. In this connection, in order to take the work on developing the new machinery more fully into account when evaluating the end results of production associations' (enterprises') economic activities, and to raise responsibility for putting new machinery into production in a prompt fashion, it is necessary to include the cost of related work of an industrial nature that is paid for out of the unified fund for the development of science and technology in the total volume of sold output, adding in normative profits for the appropriate groups of products, as stipulated in the CPSU Central Committee and USSR Council of Ministers' Decree No. 669 of 12 July 1985. This is a large additional incentive to accelerate the process of putting new machinery into production.

According to this procedure, a price is set for the prototype that ensures that the producer can recover the cost of using it. In addition, the producer

receives money from the unified fund for the development of science and technology in an amount that provides for the reimbursement of all outlays and permits the formation of normal profits. Since this money enters into the total volume of output and profits, this means that the producer sells the prototype at a price that corresponds to its social value and provides for the reimbursement of production costs and sufficient profitability. With this method of covering the costs of putting new machinery into production, the manufacturer offsets his outlays and receives normal profits, which improves the economic conditions of the development of prototypes.

Thus, the price of the prototype of new machinery is closely connected to such a source of economic incentive as the unified fund for the development of science and technology. This fund performs a dual role: one part of it is intended for financing research, experimental-design and technological work, while the other is intended for reimbursing outlays connected with the development and putting into production and use of new types of products and technological processes and with the improvement of product quality, as well as the increased outlays that occur during the first years of the production of new products. This latter part of the unified fund permits manufacturing enterprises to avoid including all the costs of putting new machinery into production in its price, which results, in practice, in a reduction in price. This procedure makes new machinery more advantageous for the user and gives enterprises an interest in putting it into production, since it makes it possible to receive money for putting it into production beforehand, prior to its sale (in the required amounts, independent of economic-accountability activity, since the unified fund for the development of science and technology is not an economic-accountability fund but, for the most part, a branch fund). It is perfectly understandable that the greater the size of a branch's unified fund for the development of science and technology and the greater the amount of money it allocates to manufacturing enterprises for putting certain models into production, the lower the sum of prices paid by users.

In practice, such a use of the unified fund for the development of science and technology is equivalent to the existence of two different prices for new machinery: a lower price for the user (the wholesale price without the sum paid from the unified fund for the development of science and technology) and a higher price for the producer (the wholesale price for the new machinery plus the money received by the manufacturing enterprise from the branch unified fund for the development of science and technology). Part of the outlays for putting the new machinery into production are financed from the unified fund for the development of science and technology, are not included in the new machinery's unit-cost, and are not taken into account in its price, i.e., the user does not pay for these outlays. As for the producer, his outlays that are reimbursed from this fund will be taken into account in the production volume and profits of enterprises producing the new machinery. Consequently, the money for putting new machinery into production that the producer receives from the branch unified fund for the development of science and technology will be included in his production volume and profits but not in the price of the new machinery for the user. This gives the user a greater interest in new machinery.

When a prototype has been perfected, the second stage of putting the new machinery into production begins. At this stage, at first the technology for creating the new products is worked out, the machine-tool attachments are manufactured, equipment is acquired and installed, and in a number of cases production buildings are built. All this requires outlays that precede series production. At the beginning of the second stage of putting the item into production, such indices as labor-intensiveness and unit-cost are substantially higher and profits lower than the level projected in the design. Gradually they come closer to this level. This is why the given stage is also included in the period of putting an item into production. Over the course of a certain period of time (a year or two, and sometimes more) the production volume of the new item rises rapidly. At the same time, all the economic indices of production improve: unit-cost, labor-intensiveness, profits, etc. This stage is completed when the projected indices of the production of a new item are attained, i.e., when its volume corresponds to the economy's requirements and its unit-cost and price permit users to use the machinery to their own advantage (this is usually reached by the third year of production).

This stage of putting an item into production is characterized by a gradual change in the magnitude of outlays per unit of the new machinery and in its unit-cost. Therefore, the correlation between the amount of labor necessary for production of the new machinery and that which is saved as a result of its use in the economy gradually changes. The production of the new machinery gradually begins to require less labor than is saved as a result of its use. The amount of money required to maintain production of the new machinery at this stage also changes accordingly. It follows from this that planning and incentives should be used to accomplish the following tasks at the given stage in the development of new machinery: in the first place, just as at the first stage, it is necessary to ensure that the producer is compensated for his initial socially necessary outlays; in the second place, it is necessary to provide for the new machinery's unobstructed introduction by users--and precisely the users for whom it will produce the greatest economic effect. To this end, plans must provide for the required capital investments, take the high cost of the initial examples into account, and reimburse this cost through price and the use of the unified fund for the development of science and technology.

The spheres in which the given machinery is used (the range of producers by models) should be precisely determined at this time. There must be a precise orientation toward specific users and future spheres of use.

The incentive system also requires improvement at this stage. Price remains an extremely important form of such incentive. However, price today little interests enterprises in the series production of a new item. The problem is that the second period of putting a new item into production is, in a certain sense, an exploratory period in which unit-cost, labor productivity, labor-intensiveness, price and profits for the new machinery have not yet reached the projected levels. During this time an enterprise encounters unavoidable additional costs, which must still be reimbursed. In connection with the general difficulties of producing products that are being put into production and the worsening of economic-accountability indices for them, the enterprise should enjoy certain advantages and be given incentives for the successful

fulfillment of its plan for the production of the new item. Yet during this complex time an enterprise receives practically no special incentives, and no economic advantages have been established for it.

Once a new product has been developed, tested, certified and receives the top quality category and Seal of Quality, certain economic advantages are provided for it; in particular, a markup in the wholesale price is established that provides for higher profitability and increased deductions from profits into the economic-incentive fund. This markup is not included in the plan for the production of new articles, although it is taken into account in the performance report (which gives an enterprise a greater incentive). But articles are usually certified once the period of putting them into production is over and they are already in series production. As a result, frequently a price markup is set for an item once a newer model has already begun to be put into production and the former item has begun to grow obsolete. An attempt to award the Seal of Quality to items at the design stage might change something in this connection. But this is hardly done at all, since the certification of an article at the design stage, when many of its qualities have not yet manifested themselves, is a difficult task to accomplish.

At present there is a procedure according to which certification of an item being newly put into production is supposed to be carried out no later than a year or, for products of special complexity, two years after the beginning of series production. According to the Methods Instructions on the procedures for planning and recording the growth in the production of products in the highest quality category (basic regulations), articles are assigned to this category as soon as the State Certification Commission's decision to issue the appropriate certification is registered with the USSR State Standards Committee.¹ From this moment, to all intents and purposes, the price markup begins to be received. Thus, the most difficult period in the life of a new piece of machinery, the period in which it is created in production, is not marked by any special forms of incentive (everything that has been said applies to both stages of putting a new item into production) and is poorly taken into account in planning.

It seems that in order to enhance the incentive role of prices in the putting of new and highly efficient machinery into production, it would be a good idea to strictly observe the procedures according to which a markup in the wholesale price of up to 30 percent is established for technological products belonging to the highest quality category, depending on their economic effectiveness, and a markdown in the wholesale price is made for products in the first quality category (five percent in the first year, 10 percent in the second and 15 percent in the third). If these products are not, upon repeat certification, assigned to the highest quality category, they are supposed to be taken out of production. The sum of the markdown is channeled by production associations (enterprises) into revenues of the appropriate budget in accordance with their affiliation. According to this procedure, the products are planned and sold at prices that do not reflect the markdown.

This is very important, since it means that two prices are used: one for the producer and another for the user. The producer sells the machinery at a price that does not reflect the markdown, and the user also buys it without

the markdown. But the manufacturing enterprise's performance report includes the price with the markdown. In this case the producer turns out to have no incentive to produce machinery in the first category. The user also has no incentive to acquire it, since he must pay a high price for it. This procedure for applying markups and markdowns in the wholesale price of new technological products, which is stipulated in the CPSU Central Committee and USSR Council of Ministers' 12 July 1985 Decree "On the Widespread Introduction of New Methods of Economic Management and the Enhancement of Their Effect on the Acceleration of Scientific and Technological Progress," will be introduced starting in 1986.

In order to improve the system of prices for new machinery, it is necessary to substantially improve accounting for the outlays required to put each model into production. So far, the costs of putting the first prototypes and experimental series into production, not to mention the increase in the actual unit-cost of a new item above its projected cost during the first year or two in which it is being put into production, are not reflected anywhere. It might make sense to keep a special chart for recording such costs by model, which would mandatorily include all the outlays required to put items into production (as is done in certain branches). In many respects the shift to a system of schedule-orders [zakazy-naryady] helps solve the problem. However, they are used mainly as a basis for product development, i.e., this accounting of outlays ends, at best, with the manufacture of a prototype, which, as is known, does not yet mark the end of the period of putting a new machine into production.

As for the existing form of statistical reporting, it does not give a clear picture of outlays. It makes no distinction between outlays for putting new machinery into production and outlays for its introduction into use, which in our opinion must be done. In this form no clear distinction is made between outlays for putting new machinery into production that are financed from the unified fund for the development of science and technology and those that are financed from other sources, which makes it difficult to analyze the structure of the reimbursement of costs. Data on actual outlays in the report year for measures related to new machinery and research work are not comparable with the total sum of outlays. It seems that this form of reporting should be changed. The stage of the creation of a prototype of a new item should be especially singled out in it.

Price is closely related to another form of providing incentives for the production of new machinery--the unified fund for the development of science and technology. With respect to the second stage of putting a new item into production, it is of great importance that this fund should be used to cover the overrun of actual outlays over projected outlays at the beginning of the series production of new items, as well as to reimburse enterprises' expenses for raising the quality of machinery. However, the size of the unified fund for the development of science and technology frequently does not permit the covering of these outlays, which are simply written off to the unit-cost of new items, which results in raising prices. This weakens the incentive role of the unified fund for the development of science and technology.

The share of the unified fund for the development of science and technology in the structure of actual outlays for measures related to new machinery (including the putting of it into production and its introduction into use) can serve as an indirect index of the size of this fund. In recent years this share for 11 machine-building ministries came to about 40 percent and fluctuated by branch from 16 percent to 53 percent. From 22 to 32 percent of the expenditures for putting new machinery into production are written off to the new machinery's unit-cost. These figures indicate the need to substantially increase moneys in the unified fund for the development of science and technology. At enterprises the inadequacy of the size of the unified fund for the development of science and technology is confirmed by the discrepancy between the sums of the fund they receive for putting new items into production and their statements of requirements for these moneys. Sometimes this discrepancy amounts to 50 percent or more.

In our view, even within the limits of the money that is presently allocated from the unified fund for the development of science and technology, it is possible to carry out a reallocation in favor of the putting of new machinery into production. As a rule, of the moneys presently existing in the branches in unified funds for the development of science and technology, the larger part (sometimes as much as three-fourths) is allocated to the research organizations, while the smaller share goes to the enterprises. It seems that moneys in the unified fund for the development of science and technology should be strictly divided according to purpose between the needs of the development of science and the needs of putting new machinery into production at enterprises, and that the optimal proportions should be found for doing so.

One principle for substantiating the optimal size of the unified fund for the development of science and technology is its connection with the volume of work specified in the plan for the development and introduction of new technology both for branches as a whole and for each individual enterprise. At present there is no such connection.

In order to make better use of the unified fund for the development of science and technology it is necessary to consistently implement the provisions of the CPSU Central Committee and USSR Council of Ministers' 14 July 1983 decree "On Additional Measures to Expand the Rights of Industrial Production Associations (Enterprises) in Planning and Economic Activity and to Enhance Their Responsibility for the Results of Work." In accordance with the decree, it is deemed expedient to leave part of the money in the unified fund for the development of science and technology at the disposal of production associations and research and production associations, as well as to increase centralization of the other part of the unified fund for the development of science and technology both within the limits of the branch and on the scale of the state as a whole. Additional areas for the use of money from the unified fund for the development of science and technology are named. In addition to putting specific items into production, it can be used for the exploratory research of associations (enterprises). Consequently, the need for money from the unified fund for the development of science and technology is growing. At the same time, provision is made for allocating 1.5 percent of the money in ministries' and departments' unified funds for the development of science and technology that is spent for putting new machinery into production

and introducing it into use to a monetary reserve of the USSR State Committee for Science and Technology (in addition to its reserve allocations for research work). This reserve is intended for the additional financing of work carried out in accordance with all-union research programs.

The executives of enterprises working under the new conditions of economic management are granted the right to use part of the money from the production development fund for outlays required to prepare for the production of new machinery. This is all the more necessary, in that no provision was ever made for a special category under which such expenditures are supposed to be reimbursed. The institution of such a procedure will mean, in effect, granting the executives of production associations (enterprises) the right to reallocate moneys from the production development fund and the unified fund for the development of science and technology that are placed at their disposal.

Enhancement of the influence of the economic mechanism on the putting of new machinery into production will make it possible to realize more fully the advantages of the socialist method of production and to accelerate scientific and technical progress, which will contribute to the successful accomplishment of the tasks and fulfillment of specific plan assignments outlined in the draft Basic Guidelines for the USSR's Economic and Social Development in 1986-1990 and in the Period up to the Year 2000.

FOOTNOTES

1. See "Sovershenstvovaniye khozyaystvennogo mekhanizma" [Improving the Economic Mechanism], Moscow: Pravda, 1980.

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INVESTMENT, PRICES, BUDGET, AND FINANCE

EXPERTS DISCUSS VARIOUS ASPECTS OF PRICE MECHANISM

Quality Through Price Mechanism

Moscow EKONOMICHESKAYA GAZETA in Russian No 8, Feb 86 p 16

[Interview with Dr of Economic Sciences A. N. Komin, deputy chairman of the USSR State Committee for Prices]

[Text] It is noted in the draft of the new edition of the CPSU Program: "It is necessary to improve price setting so that prices reflect more precisely the level of socially necessary expenditures and also the quality of goods and services, more actively stimulate scientific and technical progress, economy on resources, improvement of the technical-economic and consumer qualities of the items and the introduction of everything that is new and advanced, and contribute to the conditions for economizing." The editorial staff is receiving many letters requesting that we discuss ways and methods of improving price setting and the influence of the wholesale price on improving product quality. At the request of the editorial staff, the readers' questions are answered below by Deputy Chairman of the USSR State Committee for Prices, Dr of Economic Sciences A. N. Komin.

[Question] Recently, because of the improvement of the economic mechanism and the changeover of the economy to an intensive path of development, there has been a lively discussion of questions of prices. It is no secret that the practice of price setting is receiving serious criticism. We would like to know in what areas you are looking for ways of improving price setting?

[Answer] As we know, socially necessary expenditures are the basis of the price and therefore under socialism they also serve as a normative of expenditures for the production of products. But it would be wrong to think that the price of each, like a measurement instrument, should reflect only the expenditures on its production. Yet certain management workers think this, thus narrowing the economic role of the price and reducing it simply to accounting for expenditures.

The price is much more complicated and multifaceted not only from the standpoint of its content, but also as a form of manifestation of the law of value. Socially necessary expenditures are formed as a result of the interaction between the production and consumption through the means of prices. In addition to expenditures on the formation of prices, demand has a large degree of influence. In other words, the price depends both on the quality and on the consumer properties of the specific given commodity. This is why when establishing prices the principle of a one-sided orientation toward expenditures alone while ignoring product quality is unacceptable both from a theoretical and from a practical standpoint. In price setting the crucial and complicated methodological problems have always been those such as the relationship between prices for analogous and interchangeable kinds of products, and the reflection of quality and consumer properties. But one must say directly that these factors have been underestimated and not enough attention has been devoted to them.

Frequently people criticize the "expenditure method" of price setting. Of course price setting has experienced the influence of the entire mechanism of the so-called "expenditure economy" in which value volume indicators prevail in the evaluation of economic activity and come to be regarded as something like the final result of the operation of the enterprises and associations. Hence also the desire for a high price as a result of increasing production expenditures and paying no attention to questions of economy.

The replacement of costly products with less expensive ones is disadvantageous for the enterprises even at the present time. When setting prices we still do not pay enough attention to consumer properties and product quality, and this happens because it is much simpler to establish prices according to "expenditures" than to substantiate them comprehensively. Additionally one creates the illusion that this approach corresponds better to the task of guarding against all kinds of attempts to increase prices artificially.

Recently the development of methodology and the improvement of the practice of price setting have been proceeding along the path of more complete accounting for product quality, its technical level and its consumer properties. In machines and equipment this includes productivity, reliability, the possibility of changing technology thus providing for high quality of the final product, and the output of products with new consumer properties that improve the social conditions of production; for raw and processed materials this means increasing the percentage of the useful substance, improving technology in production, and economizing during utilization; as for consumer goods it means corresponding to the needs and demand of the population.

Qualitative indicators rise to one of the first positions when substantiating prices for new kinds of products. They necessarily must be taken into account when carrying out tasks for increasing the effectiveness of production which have been set for the 12th Five-Year Plan. For example, newly assimilated kinds of machine tool equipment should provide for a 1.5-fold increase in productivity or more.

Accounting for quality and consumer properties of products in price setting is increasingly contributing to the introduction into the practice of price

setting of normative-parametric methods of substantiating prices whereby their level is made directly dependent on the technical and economic parameters of the new products. The utilization of price lists for these prices makes it possible, in addition to everything else, to significantly simplify the policy of price setting itself. Normative-parametric price lists have already become widespread when establishing wholesale and retail prices for products in light industry and they are increasingly being introduced into machine building and raw material branches of industry.

Under the conditions of the changeover of the economy to the intensive path of development, accounting for consumer properties of products in price setting becomes especially crucial. Take, for example, the problem of improving the quality of tires and, in particular, improving such an indicator as the life of the tires. If the life of the tires, for example, can be increased 1.5-fold and the demand for tires can be reduced correspondingly, then the prices for the new tires should be set according to their lifespan, even if the expenditures on them increase by only 10 or 20 percent. Only this way can one provide for a correct evaluation of the increase in the production volume. And the additional profit will thus reflect the real economic effect.

[Question] And what can be said about the effectiveness of applying increments for products with the State Emblem of Quality?

[Answer] Quality indicators for products for industrial and technical purposes are reflected, in the final analysis, in such a generalizing indicator as the economic effect from the production and utilization of these products. This is why the indicator of economic effectiveness has now become the same kind of price-setting indicator as expenditures. It is now indispensable to take economic effectiveness into account when establishing the price level for new kinds of machines, equipment and materials.

Within the limits of the economic effectiveness the price is established taking into account expenditures on production in the first year of series production of the new products and the profitability achieved at the enterprise. Additionally, taking into account the amounts of the economic effect, an increment is set in addition to the price if this product is of the highest quality category. Practice confirms the effectiveness of this method and it becomes more advantageous for the enterprises to assimilate highly effective new technical equipment.

[Question] Certain economists want to know why not take into account the entire economic effect in the price for products?

[Answer] In the first place, new, highly effective products should be advantageous not only for the producer, but also for the consumer. In the second place, it is impossible to "count" the entire effect into the price since part of it--savings on expenditures during the period of the operation of the new technical equipment--is realized not immediately, but throughout the entire period of service. New technical equipment is advantageous to the consumer only when the price for it per unit of useful effect is lower than the price for old equipment. The practice of establishing prices for new kinds of products confirms that the limit of the increment of up to 30 percent

of the wholesale price is completely in keeping with these two principles. Here is a remarkable fact: during the past 2 years the output of newly assimilated products have turned out to be more profitable.

Another such aspect must be clarified. Since the increments are based on the price, one gets the impression that the amount of these depends on the price level: the higher the price, it would seem, the higher the increment, and with a lower price the increment would be lower. Such an understanding does not correspond to reality. The amount of the increment depends not on the price, but on the level of the effect. From 50 to 70 percent of it is used for the increment. And the higher the effect, the greater the increment. And so the amount of the effect is in inverse proportion to the price: the lower the price--the higher the effect, and the greater the increment.

I shall note once again that the practice of applying increments has improved their effectiveness and they are an incentive both for the scientific institutes and design bureaus and for the enterprises. The sum of increments is approaching a billion rubles in the country. But I should note something else--few increments are established in the amount of 20-30 percent. Most of them are in an amount of 10 percent of the wholesale price. This shows that the process of renewal is still taking place as a result of products with insufficiently high effectiveness.

[Question] To what extent do the new methods of establishing prices stimulate work for reducing the production cost of the products?

[Answer] The new methods stimulate not only the assimilation of highly productive products, but also the reduction of their production costs. While previously when the production cost of products decreased, as a rule, lower prices were set for them, at the present time a different policy is in effect. For new products that are produced with reduced expenditures which are just as good as the previous ones with respect to their consumer qualities the price level is retained, and all the reduction of the production cost remains in the form of additional profit for the manufacturing enterprise. If these products are in the highest quality category half of the savings from reducing outlays can be used for establishing increments. With this policy, as distinct from the previous one, the producers are motivated in producing new products with a lower production cost.

The incentive methods presented here also pertain fully to those cases in which the new products are assimilated to replace imported ones if, of course, this replacement produces an effect for the national economy.

[Question] For a long time there was no widespread use of rebates from prices for outdated products. How do things stand with respect to this now?

[Answer] In keeping with the decree of the CPSU Central Committee and the USSR Council of Ministers, on extensive dissemination of new methods of management and strengthening of their influence on the acceleration of scientific and technical progress," on 1 January 1986 a new price rebate mechanism went into effect for outdated products that are to be removed from production. The rebates will be established when the products are certified

to be in the first quality category in the amount of 5 percent of the wholesale price during the first year of their output, 10 percent--during the second year, and 15 percent--during the third year. After 3 years are up these products can be removed from production.

Thus rebates are transformed into a kind of fine for producing technically imperfect products. Not only the enterprises, but also the developers (planners) of such products will be placed in an economically disadvantageous position. Here, of course, it will be very significant to have consistent introduction of cost accounting principles into the work of scientific research institutes and design bureaus and to evaluate their activity in terms of the quality of the plans for new technical equipment that are developed.

[Question] Does increasing the role of technical-economic parameters and other consumer properties of products when forming prices not mean paying less attention to production costs?

[Answer] Not at all. After all, the production cost is important not only for forming prices, but also as a universal indicator of expenditures under the conditions of cost accounting. Moreover, without this indicator it is impossible to determine precisely the economic effect, and the latter is necessary, in turn, to substantiate the price. And this is not the only thing. The production cost as a category of expenditures, in the final analysis, lies at the basis of the evaluation of all measures for increasing the effectiveness of production.

But the indicator of "production cost" under the new conditions forfeits the role of the only criterion that determines the base of the price. Therefore, it would seem, the principles for increasing it fall away to a considerable degree. But traditions and customs are alive. This is why we cannot say that we have put an end to this in the work of price setting.

There are many cases in which both the production cost and the effect are increased in the materials that are submitted for establishing prices. They must be adjusted. An unjustifiable increase in prices, if it is not discovered during the stage of the establishment of prices, is revealed, as a rule, during the process of their functioning. Then it is necessary to make a decision to eliminate the difference as a result of increasing prices for the entire time period of their application, which places the enterprises in a difficult financial position.

The new approaches to price setting are being more and more extensively applied in all stages of the substantiation of prices in planning organizations, scientific research institutes, enterprises, and ministries, but there is still a good deal of work to do. Far from all designers, technicians and economists involved in the development of new technical equipment know the rules and the methodological principles of setting prices for new equipment. In this respect I advise attentively studying the "methods for determining wholesale prices and normatives of net output for new machines, equipment and instruments for production and technical purposes" which was published in EKONOMICHESKAYA GAZETA No 6 for 1983 and also Appendix No 3 to these methods which were approved by the USSR State Price Committee on

7 July 1986

5 November 1985 under No 922 and the "Basic Provisions for Applying Rebates to Wholesale Prices for Products That Are To Be Removed From Production" (EKONOMICHESKAYA GAZETA No 3 for 1986).

[Question] But does the establishment of prices for new kinds of products taking into account the quality and consumer properties not contradict the principle of reflecting socially necessary expenditures in price setting?

[Answer] In responding to this question I should note that at any given specific moment we already have an existing system of prices which to one degree or another (this depends on when the system was introduced and how outdated it is) reflects socially necessary expenditures of labor. With the appearance of new kinds of products the prices for them, naturally, should be entered into this system taking into account the quality and consumer properties of the products. At the same time such a price also corresponds to the socially necessary expenditures on which the entire system is constructed. If the production outlays for the new products are lower, there will also be a corresponding increase in profitability. And with higher production outlays new products that do not have a sufficiently high quality can turn out to be less profitable or even be produced at a loss. In our opinion, this is the only way to understand the economically normative role of the price.

Thus varying levels of profitability are inevitable during the process of setting prices for new products. Herein lies their stimulating role. It is important only that the profitability is higher for effective products which are needed by the consumer and not vice versa.

Taking into account the quality, consumer properties and economic effect fully corresponds to the tasks of improving price setting in the modern stage. This is why the task is stated quite correctly in the Basic Directions: "To improve the price system. To reflect more fully in them the qualitative indicators of production and the level of socially necessary expenditures of labor."

Control Through Prices

Moscow EKONOMICHESKAYA GAZETA in Russian No 16, Apr 86 p 10

[Article by N. Petrakov, corresponding member of the USSR Academy of Sciences]

[Text] In order to control the national economy intelligently and knowledgeably and in order to follow the course toward increasing effectiveness purposively and unwaveringly, it is necessary first and foremost to have at one's disposal precise economic instruments for evaluating the national economic effectiveness of each measure and each scientific and technical innovation. Therefore the 27th CPSU Congress devoted the most serious attention to the need to improve planned price setting. "It will be necessary to carry out," said M. S. Gorbachev in his political report to the CPSU Central Committee, "a planned restructuring of the price system as a unified whole in the interests of arranging effective cost accounting and in keeping with the tasks of increasing the real incomes of the population. It is necessary to give prices a great deal of flexibility and coordinate them

not only with expenditures, but also the consumer properties of the goods, the effectiveness of items and the degree of balance between the product that is produced and public needs and the demand of the population."

The "Anti-Expenditure" Approach to Price Setting

The price policy is an organic constituent part of the overall strategy and tactics for the economic development of a socialist society. Questions of coordinating the interests of the state and the production collectives, the producers and consumers, and various segments of the population all intersect in the price policy.

During the past 3-4 years there have been revisions of wholesale and procurement prices. And nonetheless the need for further work on improving price setting is still just as crucial.

The system of management of the economy has now been given a special order. It must be directed toward providing for all-around intensification of socioeconomic development. Price setting as one of the most important elements in this system is called upon to play far from a passive role in the organization of the anti-expenditure direction of the entire economic mechanism. But how will the planned price, which is oriented toward the level of socially necessary expenditures, be able to contribute to restructuring the control mechanism toward "anti-expenditure" principles? Is this not a paradox? Are we not setting an unsolvable problem for the price system?

It is necessary to phrase this question pointedly both from theoretical-methodological and from purely practical positions. It is precisely in the area of price setting as, perhaps, in no other that during the past decades we have accumulated a multitude of stereotypes and hackneyed ideas that impede the creative development and establishment of an integrated concept of planned control of an intensive type of national economy.

For a long time as the quantitative equivalent to the socially necessary expenditures of labor in many scientific works and in practical calculations they used the average actual expenditures, and sometimes even the production cost of the products. Thus the chairman of the USSR State Committee for Prices N. T. Glushkov noted in his article that now "as socially necessary expenditures they use the average branch production cost for the planned normative production outlays" (KOMMUNIST, No 3, 1985, p 40). Because of this interpretation of the Marxist category of socially necessary expenditures of labor, one essentially loses its most important component--"necessary" or the socially conditioned aspect of the expenditures that are actually made.

The orientation of the planned price toward the "fact" is a mirror image of the practice which proved to be defective long ago of planning physical indicators "from the level achieved." In this interpretation the price little by little loses its significance as a lever in control and to an ever greater degree is transformed into a kind of indulgence of poor work. A plan which requires no exertion of effort, for which certain managers have fought and even now are continuing to fight, is the "closest relative" of the actual production cost (even the average branch one). For buried in the price,

hidden from the society under the guise of planned justified expenditures, are immense reserves for reducing the labor-intensiveness, material-intensiveness and energy-intensiveness of the products that are produced. Under these conditions some part of the price in a number of cases can be transformed into payment for mismanagement. But to pay for the mismanagement of some means to do it at the expense of others, to undermine the economic incentive to improve production both on the part of those who are working poorly and on the part of those who are working well.

One is especially alarmed by the fact that frequently the movement of the actual expenditures as the socially necessary base for the formation of planned prices is "scientifically substantiated" by the demands for taking into account cost accounting interests of the enterprises and associations. In reality this argument discredits the idea of complete cost accounting, at whose basis lies strict control with the ruble (and, consequently, also the price) over the effectiveness of expenditures. It is as though the price acts to prevent inefficient expenditures. Production losses are not a signal to increase prices, but first and foremost an impetus to search for more economical solutions and mobilize reserves for reducing production outlays.

Any expenditures in an economic system are made for the sake of obtaining a particular final result. It is precisely the result that is the objective "norm setter which separates socially justified expenditures from excessive, inefficient ones. Herein lies the essence of the principle of self-repayment of socialist enterprises and associations, whose significance was especially emphasized in the materials of the 27th Party Congress. If the results of the production in a cost-accounting unit at least cover the current expenditures, commitments to the budget, funds for expanded reproduction and bonuses for the workers, this means that the business is being conducted in keeping with the requirements of national economic effectiveness. There can be no other point of reckoning than the result (in any case in economics).

The significance of the price as a planned economic normative consists primarily in that in the price level the society registers its requirements for economy on the part of each specific production. To coordinate the price level with the consumer properties of the goods, the effectiveness of the items, and the degree of balance between the volumes of production of products and the social demands also means reflecting the final national economic results in the prices.

Point of Reference--Goals in National Economic Plan

In order to perform this function the price must be oriented toward the goals in the national economic plan and perform the role of a kind of normative way of supporting these goals. In practice this means that the branch price level should be formed simultaneously with the drawing up of the five-year national economic plan, reflect the priorities earmarked in the plan for the distribution of capital investments among the various branches and spheres of production, and take into account the planned rates of reduction of production outlays and the resource-intensiveness of the products. In other words, the prices are called upon to serve as an active lever in stimulating a policy of progressive structural changes in the national economy. In the levels and

ratios of the planned prices constructed according to these principles one will find the economic expression of the degree of balance of the goals of the national economic plan and their resource and technological support.

The existing price system is to a significant degree severed from the planned proportions and distorts the dynamics of the material-substantial flows.

One can see an appreciable violation in the ratios and levels of prices both among prices for industrial and agricultural products and consumer goods, and within each price group. The structure of wholesale prices as a whole does not correspond to the modern tendencies in the development of the national economy and does not reflect the positive changes that have taken place recently in the distribution of expenditures on production. The USSR is among the highly developed industrial powers, for which it is typical to have relative (as compared to raw material) reduction of costs of industrial goods. But the ratio between existing wholesale prices continues to produce the opposite picture. As a result, profit realized in the prices of products from the processing branches is almost twice as great as the demand for capital investments for expanded reproduction. The internal accumulations in the fuel and energy complex, conversely, is 25-30 percent lower than the level of investment resources necessary for its development at the rates earmarked in the plans for the last two five-year plans and the Basic Directions for the Economic and Social Development of the USSR During 1986-1990 and the Period Up to the Year 2000.

An artificial price reduction for raw material resources creates economic barriers to the introduction of intensive methods of production, extensive dissemination of resource-saving technologies and comprehensive utilization of raw material.

At the same time prices for machine building products are oriented, as a rule, toward the average actual expenditures (and in small-series production and the creation of new models of technical equipment--toward individual expenditures) and the normative amount of profitability actually does not take into account the effectiveness of the utilization of machine tools and equipment in the national economy. Numerous and fairly sizeable increments to the wholesale prices, while raising the overall price level, are not an effective lever for rapid renewal of output or the creation or mass assimilation of highly effective models of new technical equipment, primarily because products that were assimilated long ago or have even become obsolete remain profitable and make it possible to form significant economic incentive funds.

In industry as a whole the overall monetary accumulations (profit plus turnover tax and so forth) after the sale of products at the current prices in 1984 amount to 164.4 billion rubles, including 96.3 billion rubles in profit. Capital investments from accumulations (that is, overall capital investments minus the amortization sums for renovation) during this same period amounted to 29.6 billion rubles. If one takes into account the fact that the funds for material incentives and social and cultural measures and housing construction took up 15 percent of the profit or 14.4 billion rubles, it is not difficult to calculate that the profit realized in prices of industrial products exceeded the need of this sector of the economy for resources for development

and material incentives for workers by 52.3 billion rubles. This is the result not only of the lack of the necessary flexibility and prices, but also the outdatedness of the overall strategy that is being used by price-setting agencies. The concealed surplus in prices is essentially a reserve for reducing them.

Attempts to resolve local problems involved in providing incentives for producing specific kinds of new technical equipment using various kinds of increments without radically changing the entire price system to address the problem of reflecting in price levels and ratios the modern structural policy directed toward providing for accelerated development of the socialist economy turn out to be ineffective. Such attempts objectively lead to deforming prices even more and severing them from socially necessary expenditures with respect to a large range of items. People frequently try to compensate for the low profitability of certain items because of artificial reduction of prices by achieving high profitability in other groups. But then the price relations that are formed lead to a loss of the point of reference: what actually is effective, what should be first to be economized, what technical equipment and technology should be given preference? Additionally, there arises the need for unjustified redistributive flows which overload the financial system and impede the adoption of on-the-spot economic decisions.

What should be the model of the planning price?

The modern model of the planning price should be based on the patterns of the reproduction process of our economy. Here we must not fantasize but strictly adhere in our work to the Marxist concept of price setting which, in particular, proceeds from the idea that the value of a product "is determined not by the necessary working time which is included in it itself, but the working time that is socially necessary for its reproduction" (K. Marx and F. Engels, "Soch." [Works], Vol 25, Part 1, p 153).

There is now a need to develop a comprehensive concept of the restructuring of price setting as a unified whole, which requires extensive consideration among scientific and practical workers of the entire totality of unsolved problems that have accumulated in this area. Unfortunately, in recent years in economic literature the level and tone of the discussions of these problems have not corresponded to their urgent and crucial nature. There has been practically no activity on the part of the interdepartmental scientific council for problems of price setting of the USSR State Committee for Prices and the USSR Academy of Sciences, which was created especially for enlisting a broad segment of the scientific community to discuss both pressing problems of price setting and the fundamental theoretical-methodological principles involved in improving the price system. The party's appeal for lively scientific discussions regarding cardinal problems of improving production relations in the socialist society requires more active research in an area so important for accelerated development of the economy as the methodology for measuring expenditures and results and reflecting these in the price policy.

Moscow EKONOMICHESKAYA GAZETA in Russian No 17, Apr 86 p 14

[Article by G. Chubakov, doctor of economic sciences]

[Text] Planned price setting and the planning price are called upon to exert an active influence on the level of expenditures of public labor, the reduction of expenditures on production and its increased effectiveness. The price performs its active role as a planning normative primarily because the basis for determining it is composed of planned socially necessary expenditures.

Regarding the price as a planning normative, N. Petrakov in an article entitled "The Price--The Lever of Control" (EKONOMICHESKAYA GAZETA, No 16) raised a number of theoretical-methodological and practical questions related to carrying out a planned restructuring of the price system as a unified whole. But he bypassed the main question: How will the earmarked growth of the productivity of public labor and the reduction of production expenditures affect the price level and on what basis will this restructuring be conducted--a reduction or an increase in wholesale prices?

Of principal significance for the price system is the acceleration of the growth of the productivity of public labor and the reduction of socially necessary expenditures which was envisioned in the Basic Directions. The average annual increase in the productivity of public labor during 1986-2000 should be increased to approximately 6 percent as compared to 3 percent which it has been in recent years.

The Main Thing--Acceleration of the Growth of Effectiveness

When these conditions are met, in the future period possibilities open up for utilizing the savings on public labor to increase wages and to increase payments and benefits that are granted from the public consumption funds. Some of the savings can also be used for reducing prices, particularly retail prices, in the interests of increasing the real incomes of the population.

It is not the price that primarily forms the level of expenditures of labor but, on the contrary, socially necessary expenditures of labor are its basis. A reduction of these expenditures is the material foundation for improving and strengthening the entire system of prices and planned price setting. In a planned economy socially necessary expenditures of labor are formed as a result of the implementation of plans for economic and social development.

The economic theory and practice of planned price setting have developed a scientifically substantiated system of methods for accounting for socially necessary expenditures of labor and influencing their reduction. A consistent implementation of these methods comprises the main content of the anti-expenditure approach to price setting.

The essence of the anti-expenditure approach consists in orienting wholesale prices and tariffs toward socially necessary production outlays taking into account their reduction during the planned period, providing for normative profitability in the prices, and taking into account the satisfaction envisioned in the plan of social needs for products that correspond to the modern technical level and quality, that is, accounting for the consumer value of the product.

Hence it follows that when determining the levels and ratios of prices for industrial products during the period of 1986-1990 and the years that follow soon after it is necessary to be oriented toward assignments for reducing production outlays which were envisioned in the Basic Directions. The production cost of products in 1986-1990 in industry as a whole should be reduced by 4-5 percent, in machine building and metal processing--9-11 percent, and in the chemical and petrochemical industry--7-9 percent.

These assignments can be fulfilled only on the basis of a radical technical reequipping of production, the establishment of real order in planning, and the expenditure of funds with a high return.

Even in the middle of the current five-year plan carrying out these assignments for reducing production costs can open up possibilities for reducing prices in the majority of branches of machine building and instrument building, in several branches of the chemical industry and in certain other branches.

The USSR Gosplan, the USSR Ministry of Finance and branch ministries must fundamentally change their attitude toward enterprises that operate at a loss and products that are unprofitable. In the political report of the CPSU Central Committee to the 27th Party Congress it says: "It is important to unwaveringly realize the principle whereby enterprises and associations are fully responsible to make sure that they do not operate at a loss. The state bears no responsibility for their commitments. Herein lies the essence of cost accounting."

Self-repayment and self-financing must be "earned" by reducing expenditures and not by receiving funds from the state as a result of increasing prices for products. At the beginning of the 1920's when V. I. Lenin and the party quite seriously demanded of the trusts and enterprises that had been changed over to cost accounting that they completely pay their own way and be responsible for the results of their work the Soviet state decisively carried out a price reduction for industrial products.

Under the existing conditions even with the new wholesale prices that went into effect on 1 January 1982, 13 out of every 100 enterprises in industry are operating at a loss. In the USSR Ministry of the Coal Industry almost every third enterprise is operating at a loss, the USSR Ministry of the Fertilizer Industry--every fourth enterprise, and in the Ministry of the Pulp and Paper Industry--every fifth enterprise. There is a large number of enterprises operating at a loss in the construction materials industry, the food industry and other branches. Eliminating losses from producing unprofitable products would make it possible to significantly overfulfill assignments for 1986-1990

concerning reducing production costs in industry which were earmarked by the Basic Directions. Here lie immense unutilized reserves for accelerating economic growth.

Frequently, however, one has occasion to hear that if the output of a product necessary to the society at a given enterprise is envisioned by the plan then the price (take note, not the level of expenditures!) should provide for profitable operation. If the price does not provide for reimbursement of expenditures and cost accounting profit, it is suggested that it be increased.

It is being proved that price increases are necessary for cost accounting and for economic and material incentives. Sometimes they even appeal to the interests of the consumer: only in this case, they say, is it possible to increase production and fully satisfy the needs.

Eliminating losses requires a change in thinking and a rejection of existing stereotypes. Orientation toward increasing prices is essentially a formal approach to solving economic problems. For in this case the improvement of the indicators is not reinforced by a real restructuring of production or a contribution to economic progress.

The problem of eliminating losses must be solved primarily through rearranging production, reequipping it on the latest technical basis, improving specialization and cooperation, and organizing production and labor efficiently.

The development of effective measures for reducing production outlays at enterprises that are operating at a loss, in our opinion, should become a most important direction for planning work in the branches, associations and enterprises.

On the Concept of Closed Expenditures

An essential role in economizing on public labor could be played by extensive introduction into the practice of planning and price setting of modern methods of searching for effective solutions, mathematical methods and computers, and optimal planning. Unfortunately, the development of economic science and the practice of methods of optimization of planning is impeded by the "theoretical" groups which are frequently not linked either to economic science or to mathematical methods of optimization. Thus the determination of prices at the level of the so-called closed expenditures of the optimal plan has become a stumbling block.

In the majority of cases, however, closed expenditures mean the greatest expenditures of production whose product output has been included in the optimal plan for production. The result of this kind of optimization is not a reduction of prices and not a reduction of planned expenditures, but an increase in these with an orientation toward the individual, highest expenditures of the enterprise which have the least favorable production conditions.

One cannot agree with such conclusions, of course, they contradict both the logic of economic theory and the anti-expenditure approach, on the one hand, and the essence of mathematical optimization, on the other.

The application of methods of optimal planning with the goal of minimizing total expenditures produces a different, lower planning base for the establishment of prices with given conditions and limitations of the task.

A reduction of expenditures which is provided for by an optimal plan must be taken into account in a low price level and not in increasing it. Otherwise the price forfeits its role as a planning economic normative which counteracts ineffective expenditures.

It is no accident that the orientation of prices toward closed expenditures is being defended especially persistently in those branches which suggest increasing production outlays and reducing the return from investments, for example, when extracting natural resources. They explain that otherwise the planning and design decisions will turn out to be ineffective.

Automatic orientation toward closed expenditures, which sometimes are 4-5 times higher than branch expenditures, is nothing other than a drive for quantitative indicators without taking into account the qualitative results. This is the same thing as the "gross output" which was used instead of studying the effectiveness of decisions.

In this connection we should like to note: does not the previously established stereotype of closed expenditures continue to be manifested in the proposal of N. Petrakov concerning increasing prices for raw material and all products of the fuel and energy complex? After all, these branches have at their disposal immense reserves for increasing effectiveness and reducing nonproductive expenditures. Realizing these reserves will make it possible to provide the necessary accumulations for their development.

It is impossible to increase the role of the price in the economic mechanism by relying on "strong-arm" pressure, without a comprehensive substantiation of the reserves for reducing expenditures on the basis of scientific and technical progress and, the main thing, without solving problems of providing production with the corresponding resources. This approach has nothing in common with the recommendations one sometimes encounters to refrain from accounting for expenditures when determining prices without taking into account the objective conditions of the production and consumption of products.

In order to raise the scientific level of price setting it is first of all necessary to work on a radical improvement of its interaction with planning.

The planning indicators which are adduced when justifying prices are frequently not oriented toward increasing effectiveness and envision an increase in expenditures. Frequently the increased effectiveness included in these indicators does not correspond to the rates of acceleration earmarked by the assignments of the Basic Directions.

Sometimes the matter is depicted in such a way that with the existing policy for establishing prices ineffective indicators are not revealed. This is a facile idea. In 1985 solely from following the results of the expert evaluation by the USSR State Committee for Prices expenditures were reduced and there was a corresponding reduction of wholesale prices for the BelAZ dump truck with a capacity of 170 tons--by 15.6 percent, the DG-600 A diesel generators--by 23.9 percent, panel homes of the Petropavlovsk SSK of the USSR Ministry of Rural Construction--by 19 percent, and panel buildings of the Krasnoyarsk KISK of the USSR Ministry of Heavy Construction--by 26.2 percent).

The list of examples like these could be continued. It is necessary, consequently, to resolutely raise the level of all economic and analytical work both in planning and in the substantiation of prices.

Taking Product Quality Into Account

The basic problem in increasing effectiveness includes raising the technical level and improving the quality of products, expanding the assortment, and accelerating the updating in keeping with the public demands. In this case the consumer value increases not by means of increasing the quantity of products, but as a result of improving their quality. As a result, with the given expenditures, the useful effect and the productivity of public labor increase. First of all, it is necessary to improve the ratio of prices for various kinds of products in keeping with their useful effect and the tasks of the structural policy and to differentiate prices more completely depending on the technical level and quality of the items. The system of evaluating product quality and monitoring it is in need of a radical change. The anti-expenditure approach requires that the increment to the price must not exceed the actual economic and social effect obtained from the production and application of the products in the national economy.

The so-called calculated effect is now used as a basis for determining increments. But the real effect frequently turns out to be much less than the calculated one. A verification of the actual economic effect from the operation of industrial robots which was conducted by the USSR State Committee for Prices shows that only in three out of nine cases did they achieve the reduction in the production of cost of products manufactured with the application of these robots. Only in two out of 10 cases did the actual economic effect exceed the calculated effect that was used when establishing the wholesale prices and the incentive increments.

It is necessary to improve methods of calculating the effect obtained from the production and application of new technical equipment. The economic effect must be taken into account in plans for the development of branches and enterprises and in indicators of the growth of labor productivity, the savings on material resources and the reduction of the production cost of products. It would be expedient to increase the responsibility of the USSR State Committee for Science and Technology, the USSR Gosstandart and the ministries and departments for determining the real effect for new technical equipment and other kinds of new products.

In order to preclude the output of ineffective products, especially those for which there is no demand or which lead to excessive expenditures for the consumer, it is necessary to increase the prohibitive role of rebates from wholesale prices.

In order to use rebates more extensively it is necessary to arrange for interaction among price-setting agencies, planning agencies, the USSR State Committee for Science and Technology and the USSR Gosstandart. Organizations that plan scientific and technical progress and determine the technical level and quality of products as well as their correspondence to the needs of the economy must jointly establish a list of products which are to be removed from production. On the basis of this list it is necessary to establish rebates from wholesale prices and to coordinate these with the updating of the assortment of products.

Prices and Product Quality

Moscow EKONOMICHESKAYA GAZETA in Russian No 19, May 86 p 11

[Article by A. Deryabin, doctor of economic sciences, professor]

[Text] In response to readers' questions, the deputy chairman of the USSR State Committee for Prices, A. Komin ("Toward Higher Quality--Through the Price Mechanism," EKONOMICHESKAYA GAZETA, No 8, 1986) described in fairly great detail the existing methods of providing incentives for improving product quality with the help of prices. But even with an extremely respectful attitude toward the existing system of price setting one cannot but see the essential shortcomings in the practice of establishing prices for new products.

The Calculated and the Real Effect

This practice is based on the idea that improving product quality, which is reflected in the improvement of the technical and economic parameters of the items, necessarily requires the increasing expenditures and, consequently, wholesale prices. This connection seems objective. Therefore price-setting agencies are faced with the task of establishing wholesale prices in such a way that their inevitable increase does not outstrip the improvement of the quality of the new products as compared to those produced previously. In other words, it is necessary for there to be a reduction of prices per unit of useful effect.

But here is what is confusing. This practice has been in existence for almost two decades. But up to this point there is no clear definition of the concept "useful effect." Most frequently it is intended to mean some one indicator of consumer qualities (productivity, cargo capacity, power, speed). Thus A. Komin again turns to the example of the tires. And once again he uses only the indicator of their lifespan, with which he compares both the expenditures and the effect and, consequently, the prices.

And yet it is understandable that one indicator can by no means characterize the quality of an item as a whole. For these same tires, of no less

significance and sometimes even more is the indicator of traction, which determines the safety of movement. The quality of driving, the expenditure of fuel, the possibility of traveling in roadless areas and the level of vibration all depend on the design of the traction.

Attempts to integrate all qualitative indicators in one, in the final analysis, lead to the determination of the economic effect of the new product which is taken into account when establishing wholesale prices and increments to them. The greater the economic effect the greater the increment to the wholesale price, and consequently, the greater the amount of incentive funds for the producers of the new products.

Externally all this seems quite reasonable. To be sure, one is bothered by the fact that this definition of prices and increments to them does not have anything to do with the "reduction of prices per unit of useful effect."

One is also somewhat vexed by the circumstance that the consumers of the new--and what is supposed to be better--product instead of expressing feelings of recognition are constantly complaining that there is a quite unjustified increase in wholesale prices for new equipment, instruments and new kinds of materials. This growth of prices in the majority of cases does not correspond to the improvement of the qualitative characteristics of the products that has been achieved.

Analysis shows that the existing policy for determining prices directly urges the producers of the new products to directly increase the calculated economic effect. In many cases it is 1.3-1.5 and more times higher than the effect determined by the price-setting agencies. In turn, practice shows that even the effect as adjusted by them frequently does not reflect the real effect.

Old and New Products

What is wrong here? It would seem that what is wrong is the scientific groundlessness of the initial position according to which, as A. Komin thinks, when new kinds of products appear the prices for them should be included into the existing system of prices, that is, the system of prices for previously assimilated products, which to one degree or another reflects the socially necessary expenditures.

But the determination of prices for new products on the basis of prices for those previously assimilated stands in contradiction to the real processes of the formation of socially necessary expenditures of labor on the production of new and old products. The fact is that socially necessary expenditures of labor are determined not by the conditions of production, but by the conditions of reproduction.

Consequently, an increase of these for old products will depend not on the actual expenditures of labor for their output, as was the case before the appearance of new products, but on the socially necessary expenditures for the manufacture of precisely these new products. This is also required by the principle of accounting for obsolete products. An old machine, wrote K. Marx, "loses its exchange value as machines with the same design begin to be

reproduced less expensively or better machines come in to compete with it" (K. Marx, F. Engels, "Soch." [Works], Vol. 23, p. 415). Therefore we need not higher prices (taking increments into account) for new products, but reduced prices for previously assimilated ones.

It must be recognized that in the practice of planned price setting these aspects have come to be taken into account more and more. Several years ago the USSR State Committee for Prices introduced rebates from wholesale prices for products which do not have sufficiently high quality. The conditions for applying these rebates are constantly becoming stricter. Now these rebates (from 10 to 15 percent) are established for prices for all products of the first quality category. But, unfortunately, these measures have not reached their goal. The number of new kinds of products that are assimilated has not increased. Their calculated effectiveness has not increased either. The sums of increments to prices exceed the sums of rebates tens of times over.

Changing the Source of Funds for Increments

All this makes it possible to assert that we need not individual partial improvements, but a radical change in the entire methodology and methods of using prices to stimulate improvement of product quality.

First and foremost it is necessary to resolutely reject the theoretically erroneous principle of determining prices for new products on the basis of existing prices. In keeping with theory it is necessary to establish lower prices not only for products that have been removed from production or are not in the first quality category, but also for all products (individual parts, components, aggregates and machines) in which new design or technological solutions could be used.

But this is not enough. It is also necessary if not to eliminate, at least to essentially weaken the motivation of producer enterprises to increase the calculated economic effect, which also brings about an increase in prices for the new products. This motivation today issues from the completely comprehensible desire to use additional profit in order to obtain greater deductions into the incentive funds.

These deductions now depend directly on incentive increments to the price which, in turn, is only part of the future economic effect from the utilization of the new products.

But regardless of how great the effect from the production and application of a new excavator, a new chemical reagent or a new electronic instrument may be, it does not increase the overall volume of consumer goods produced and sold through trade and it is not reflected in the volume of paid services either.

It is necessary to change the source of material incentives for manufacturers of new products. This source should be not the future economic effect, but the real reduction of monetary incomes of those who do a poor job of introducing the results of scientific and technical progress. In our opinion, with such an approach the financial situation of each enterprise and, consequently, the amount of the material incentive for its collective will

depend not on when this enterprise intends to assimilate a new product, but on how quickly this is done and to what extent it is ahead of other enterprises.

Here is one example. It is known that the main bottleneck in the extraction of petroleum, condensate and gas is inadequate volume of drilling, which is predetermined by the low productivity of outdated drilling equipment. Yet almost 20 years ago an automated drilling device was created which at least doubles productivity. But its series production has not yet been started. To be sure, at the beginning of 1975 the Uralmash Association manufactured an experimental model. Unfortunately, it has remained the only one. It would seem that such a situation would not have arisen if from the moment of development of the automated machine or at least during the output of the experimental model the wholesale prices for obsolete drilling machines, which, strange as it may be, are in the highest quality category (were reduced to the level of the production cost).

And, finally, the reduction of prices for obsolete products would introduce into the economic mechanism such a necessary element as economic competition among enterprises that are in various branches. In all cases the only ones to gain the advantage would be those who utilized the achievements of scientific and technical progress most rapidly and most efficiently.

The stimulation of qualitative improvement through prices is not limited to new items alone. Prices must be used to create conditions whereby producers would be motivated to constantly maintain the established technical and economic parameters and consumer properties in all items without exception, and gradually to increase them as well.

In the modern practice of price setting prices are strictly tied to established state and branch standards and technical specifications. It is assumed that when these standards and specifications are not met the products are rejected by the division for technical control and do not get outside the enterprise.

To be sure, for an extremely limited range of consumer goods there is a differentiation of prices according to the grades. But this does not change the overall picture. In this case a direct connection is established between the prices and the qualitative characteristics of the items.

Concerning "Firm" Prices

Unfortunately, this initial premise is severed from real life and is only a noble wish. This is especially notable when products for the same purpose are produced by various enterprises. It is well-known, for example, that the population prefers ZIL and Minsk refrigerators and there is little demand for a number of other models of refrigerators among the population. But the prices for these refrigerators in no way depend on their quality, and are determined strictly according to the technical specifications--the volume of the refrigerated compartment.

It would be impossible to count all of the examples like this for various kinds of goods. There is only one conclusion: the prices are set only with

respect to the declared consumer properties, and not the real ones. Moreover, sometimes in the wholesale prices these are precisely what create the actual interest of the producer enterprises and the relationship to quality is inverted.

Less noticeable but even more impressive are shortcomings in price setting for means of production. Frequently products of poorer quality are more expensive. For example, wholesale prices for Zhiguli, Moskvich and Zaporozhets passenger vehicles differ quite insignificantly from one another, and this difference is not always in favor of the better automobile.

The current practice of linking wholesale prices to the declared indicators of consumer properties and to an even greater degree the individualization of prices for various enterprises undermine the stimulating role of prices in improvement of quality and nullify the application of economic sanctions against enterprises that produce defective products.

It seems to us that under modern conditions we should move toward "firm" differentiation of wholesale and resale prices for consumer goods and wholesale prices for means of production. We are speaking about establishing increments in an amount of 15-20 percent of the prices for goods of enterprises and associations that produce truly high-quality items. The honor of the plant or factory trademark should be reinforced not only by moral, but also by material incentives.

Conversely, enterprises and associations whose "renown" has been created by poor-quality products should be subjected to economic sanctions.

Now certain enterprises in Estonia and Georgia have been given the right as an experiment to establish independently the "firm" wholesale and retail prices. But to extend the conditions of this experiment everywhere could bring only harm. It could end with a rise in the overall price level while product quality on the whole would not increase. The experience in applying the Emblem of Quality and increments to prices for it are the best evidence of this.

In our opinion, the approach to incentives should be principally different. If a "firm" increment is established to prices for some particular enterprise, at the same time they should establish also "firm" rebates from wholesale prices for precisely the same amount. For it is absolutely improbable that all manufacturers would produce products with equal quality. So let the truly strongest win. A revision of increments and rebates once every 2 years will create an effective stimulus for improving quality and will make it possible to introduce an element of economic competitiveness.

In many cases--this pertains especially to fuel and raw and processed materials--it is exceptionally important not simply to achieve high qualitative characteristics, but to maintain some certain quality level on a stable basis. Most frequently the stability of quality turns out to be even more important than improving it from time to time.

The instability of the quality of energy coal, ores, pulp, chemical fiber and metal coatings forces electric power stations, paper combines, textile enterprises and other consumers to maintain immense warehouses and make large expenditures for evening out the quality of the fuel and raw and processed materials that are consumed. A normal production process turns out to be simply impossible without this. Yet the suppliers are economically motivated to do something else: to deliver individual batches of high-quality products. Maintaining an average quality of products in the places where they are produced requires fewer expenditures. Therefore it would be expedient here too to introduce both increments and rebates which "mirror" them in the prices for the delivery of products with stable and unstable quality.

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July 24, 1986